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GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

GEORGE F. BAKER FOUNDATION

INTRODUCTORY PROBLEM

Kroger Grocery and Baking Company

SOLDIERS FIELD
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KROGER GROCERY AND BAKING COMPANY

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PREPARED THROUGH THE COURTESY OF THE
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KROGER GROCERY AND BAKING COMPANY

I

Summary and Statement of Problem

DURING 1928 and 1929, the Kroger Grocery and Baking Company inaugurated a tremendous expansion program — five years of expansion in one was the boast. Attention was directed chiefly to the acquisition of retail outlets, although some manufacturing facilities were acquired. Little time was given to matters of organization, control, personnel, coördination, or assimilation. The result was stockholder and banker dissatisfaction, lower earnings and return upon investment, and collapse of organization morale — the direct result of too much one-man management.

Immediate Steps Taken

The dissatisfied bankers and stockholders installed the new management which immediately undertook to alter conditions: morale was improved; a personnel department was inaugurated to build and perfect an organization; a program to assimilate the stores was begun — duplications were to be eliminated, stores with good prospects were to be welded to the chain; and for control and coördination purposes, operations were to be decentralized — the business was to be conducted at the scene of activity instead of at the home office; and a budget was installed. Although these were the important undertakings, there were collateral projects: a food foundation, an engineering department, a real estate department, and an auditing department were established. A wage and bonus plan patterned upon the Gantt principle was installed in the warehouses and manufacturing units.

Condition in 1932

Despite the business depression the new management made considerable progress with its rehabilitation of the company; all the things it sought to accomplish were partially or fully accomplished by June, 1932. The chief problem in 1932 was to operate the company at a profit upon a greatly reduced volume; the management expected to cope with this situation for the most part by reducing

expenses. Other important considerations were: the continuation of the personnel training program and the work of the Food Foundation; the inauguration of a modest expansion program of larger and better stores to assist in securing volume; and the combating of discriminatory state and municipal taxes levied upon chain stores.

The Kroger Grocery and Baking Company was one of the pioneers among chain grocery organizations in adopting the "Cash-and-Carry" principle, in introducing meat departments, and in baking bread and pastries. On January 2, 1932, this company was operating 4,884 stores in 17 states, 13 bakeries, 4 coffee roasting plants, 2 abattoirs and meat packing plants, 1 sausage plant, 5 dairies, 22 warehouses, and a general manufacturing plant for the production or packing of such products as candies, spices, teas, and extracts, and several beverage plants and printing plants.[1]

Growth in Sales and Stores

Year	*Total Sales*	*% Increase*	*No. of Stores*	*% Increase*
1902	$1,750,610	.....	40	.....
1907	3,861,740	120.6	83	107.5
1912	8,069,853	109.0	157	89.2
1917	23,342,367	189.3	516	228.7
1922	53,753,563	130.3	1,413	173.8
1923	74,339,108	38.3	1,800	27.4
1924	90,124,798	21.2	2,127	18.2
1925	116,235,436	29.0	2,856	34.3
1926	146,009,373	25.6	3,369	18.0
1927	161,261,354	10.4	3,749	11.3
1928	207,372,550	28.6	5,260	40.3
1929	286,611,215	38.2	5,575	6.0
1930	267,094,345	*6.8 d*	5,165	*7.4 d*
1931	244,371,147	*8.5 d*	4,884	*5.4 d*

d Decrease.

Source: Data assembled from New York Stock Exchange listing applications and annual reports of company.

II

Early History and Incorporation

In 1882, Mr. B. H. Kroger opened his first store in Cincinnati under the name of the Great Western Tea Company with a cash capital of $722; his rent was $40 per month. Successful from the beginning — a profit being earned the first year — another store was opened the second year. This was followed by others until in 1902 the number of stores had reached 40 and the sales volume $1,750,610. At this time the company was incorporated as the

[1] Appendix A presents the Territorial Distribution of Stores, Warehouses, and Manufacturing and Packing Facilities.

Kroger Grocery and Baking Company under the laws of Ohio, with Mr. B. H. Kroger as president.

Charter Provisions

According to its charter, the company was formed for the purpose of doing and carrying on, at retail and wholesale, a general mercantile business. Among other things, it could buy, sell, manufacture, and produce all kinds of groceries, sundries, canned goods, confectionery, vegetables, fruits, meats, both fresh and salt fish, and all other goods and articles used and dealt in by a grocery, baking, meat, and general mercantile business. It could buy, sell, and deal in, both at retail and wholesale, all kinds of groceries, meats, food products, bakery products, and articles of every kind and nature proper to be sold, used, handled, produced, and consumed in such business.

Kroger Organization in 1927

In 1927, Mr. W. H. Albers, then first vice-president and general manager, made the following remarks[1] about the Kroger organization:

> The Kroger organization is recognized in the trade as one of the strongest and most complete. The various activities of the business are well distributed among expert and responsible department heads. The territory and stores are divided among nine major branches, each managed by a branch head, with two assistants. These assistants have in charge the assistant superintendents, each of whom, in turn, is at the head of seven to ten supervisors. The supervisors, chosen from among the store managers who have made the best records, are responsible for fifteen to eighteen stores each.
>
> Store managers are placed in charge after they have been trained as clerks and later as assistant managers. Every employee in the retail organization has without exception started with the company in the lowest position — as a clerk. Over 4,500 employees, including a majority of the store managers, and substantially all of the important executives, own stock in the company. The management has recognized the need of developing an ownership interest on the part of the principal employees, and has encouraged this by offers of Common Stock on liberal terms.
>
> All purchasing is done at the General Offices in Cincinnati by a staff of twenty expert buyers, headed by a general purchasing agent. This does not include the purchasing of produce and fruits, which is a daily requirement handled by the branches.
>
> The manufacturing department is a separate organization, with

[1] Circular published by Lehman Brothers, dated December 15, 1927, announcing the issuance of 275,000 shares of no-par common stock. The price was $70 per share.

an expert in charge of each division — all directed and supervised by a general production manager. The meat department is conducted throughout by its own organization, from management, purchasing and manufacture, down to the retailing in the individual stores, where the specially trained meat manager conducts his department separate from the grocery and produce division.

In each of the nine branch centers the company has a large warehouse into which merchandise is shipped in carload lots, and whence it is distributed by motor truck to the retail stores. The branches are located at Detroit, St. Louis, Cincinnati, Columbus, Dayton, Toledo, Indianapolis, Cleveland and Peoria. Subsidiary warehouses are also maintained at Grand Rapids, Youngstown and Charleston.

Inventory is taken in each store monthly by an auditor from the branch office. A balance of the accounts is thereby made in each store each month, a control that gives information as to the capability of the store managers.

Mr. Kroger Resigns as President

On January 31, 1928, Mr. Kroger resigned as president. The policy of the management during his administration had been to expand through the opening of its own units in rapidly growing territories — and through the absorption of existing chain grocery companies only when they could be easily fitted into the organization and when they could be purchased for a very reasonable price; expansion by means of acquisition had been a small factor. Personnel and organization were usually completed before opening stores on a large scale in a new territory; and plans for leasing of stores were originated by the district executive and the responsibility for each lease was upon the district management which operated the store. Rapid as the expansion had been up to 1928, it could rightfully be termed normal in those early days of the chain grocery industry. Many of the territories entered by the company before 1928 were indeed virgin markets for the chain store. Toward the end of Mr. Kroger's term as president, however, cities and towns not served by a chain system became rare, and the temptation to expand by the acquisition of the many small chains in business became stronger. Toward the end of 1927, plans for a recapitalization were announced. The $10 par shares of common stock were exchanged on a two for one basis. About 300,000 common shares, composed mostly of Mr. Kroger's holdings, and 146,700 preferred shares were sold to the public. After the recapitalization, approximately one-half of the 2,000,000 shares of authorized common stock remained unissued.

III

Period of Expansion

When Mr. W. H. Albers, vice-president and general manager, was elected president on January 31, 1928, rapid expansion by the old policy was impossible; and the capital structure of the company was such that it could expand by means of the acquisition of the small grocery chains through the exchange of capital stock. Mr. Albers' election marked the termination of the old policy and the beginning of a new expansion program.

Expansion Begins

In 1929, existing chain stores were acquired in a wholesale manner — usually through an exchange of stock. In December, 1928, 99% of the common stock of the Piggly Wiggly Corporation was acquired.[1] Piggly Wiggly Corporation has a definite system of store layouts made possible by specialized equipment which the company licenses operators to use along with its methods of merchandising, trade-marks, patents, and labels. Besides the valuable royalty rights secured, a manufacturing plant, where the Piggly Wiggly Corporation store equipment was made, was added to the Kroger production facilities. By December, 1930, the Kroger Grocery and Baking Company had also separately added 470 Piggly Wiggly Corporation stores to its chain.

During the period from January 31, 1928, to October, 1929, approximately 1,825 stores were added to the Kroger chain — practically all of which had been members of existing chain systems.[2] This accelerated expansion brought in its wake increasingly difficult problems of control — increasingly so because of the growth in number of stores, the larger territory served, the heterogeneous nature of some of the chain systems acquired, and the constantly increasing competition from both unit and chain stores.

Changes in Distribution System

In an attempt to control operations and to curb mounting costs more efficiently, certain changes were made in the distribution system by the Albers management. The territory served by the Kroger chain was divided into six divisions: (1) the northern, (2) eastern, (3) central, and (4) southern divisions, each with four key cities;

[1] Appendix B presents the Price Range of the Common Stock of Piggly Wiggly Corporation, and
Appendix C presents the Financial and Operating Statements for the Piggly Wiggly Corporation for 1927 and September 30, 1928.

[2] Appendix D presents the list of chains acquired from January 31, 1928, to October, 1929.

(5) the western division with three key cities; and (6) the Chicago-Madison division with two key cities. A warehouse in each key city served the surrounding territory. By working under the following method of supervision, the company maintained a close contact between each division and the central offices in Cincinnati:

1. Each store manager reported to a supervisor who was in charge of approximately 15 stores;
2. Each supervisor reported to a superintendent who was in charge of approximately 90 to 100 stores;
3. Each superintendent reported to a territorial manager situated in one of the 21 key cities;
4. Each territorial manager reported to one of the six division managers;
5. Each division manager reported to the general office; and
6. Practically all the buying, with the exception of produce and meats, was centralized in the offices in Cincinnati.

Complaints on Expansion

Notwithstanding these attempts to curb increasing costs by new methods of control, the ratio of net profits to sales decreased in 1928 and again in 1929.

Operating and Financial Statistics[1]

Year	*Average Sales per Store*	*Average Profits per Store*	*Ratio of Cost of Sales to Sales*	*Ratio of Operating Expenses* to Sales*	*Ratio of Net Profit to Sales*	*Inventory Turnover*	*Return on Invested Capital*
1921	**	**	**	**	**	**	12.3%
1922	$38,042	$1,459	**	16.4%	3.8%	**	21.3
1923	41,299	1,246	**	16.7	3.0	**	20.1
1924	42,372	1,453	80.5%	14.7	3.4	7.7%	24.0
1925	40,699	1,232	80.7	15.2	3.0	8.7	23.2
1926	43,339	1,251	80.9	15.1	2.9	10.1	25.9
1927	43,014	1,168	82.6	13.7	2.7	10.9	23.7
1928	39,424	1,012	83.8	12.7	2.6	8.0	11.9
1929	51,410	1,062	84.3	13.1	2.1	10.9	11.7
1930	51,712	420	77.9	19.6	.8	10.4	4.4
1931	50,035	559	76.5	20.4	1.1	11.4	5.5

* Excluding depreciation.
** Not available.
Source: Figures for computation obtained from *Poor's Industrials*, 1927, and annual reports of company, 1926–1931.

The sensational expansion policy inaugurated by Mr. Albers was not approved by all stockholders nor the bankers. Many of the new stores were in close proximity to — some actually adjoined —

[1] Balance Sheets and Operating Statements for the years 1921 to 1931 are presented in Appendix E.

existing Kroger stores. Mr. Albers answered adverse criticisms by stating that every acquisition had been made on terms highly advantageous to the Kroger Grocery and Baking Company, and by maintaining that the opening of new Kroger stores, for the purpose of developing the market served by the acquired chain stores, would have cost much more and would have taken four or five years. Not a single acquisition was made, he stated, when it was thought an opening of a new store or stores would have been more economical. The decline in the percentage of profits to sales in 1929 accentuated the criticisms of stockholders — especially of certain individuals owning large blocks of stock. Mr. Albers again defended the policies of the management by stating that, although costs had increased, the new policies of control should overcome this factor in 1930, and all the new stores should be assimilated by the end of 1930, and by again declaring that the company had made a five-year expansion step in slightly more than a year. He also mentioned the higher rentals and increased salaries paid to the store personnel.

However, these explanations were not satisfactory to those interested, including the bankers; and Lehman Brothers undertook the reorganization of the Kroger Grocery and Baking Company. Mr. Hancock, partner of the banking firm, believed that there were three stages in a banker's service: (1) selecting new management, (2) assisting and actually participating in management, and finally (3) standing by, but offering advice and coöperation. When Lehman Brothers became active, five of the six senior officers of the company resigned; and Mr. Hancock assumed the task of finding the type of management that could rebuild morale, correct the errors of the rapid expansion program, and revamp the organization from the bottom up.

IV

Retrenchment and Period of Readjustment

Mr. A. H. Morrill, a Cincinnati attorney and large stockholder, was elected president in the annual meeting held in April, 1930; Mr. Albers succeeded Mr. Kroger as chairman of the board of directors. This election, marking the end of Mr. Albers' administration, marked also an almost complete reversal in certain policies of the company. Retrenchment, decentralization, and the inauguration of policies completely new followed in 1930 and 1931.

New Executive Personnel

Mr. Morrill had been legal adviser of the company and director since March 13, 1930, and for several years had taken an active part in the affairs of the company. This was true not only of his legal

activities; he had also become very much interested in the actual operations of the company, of which he had made some study, and of which he had taken some part in directing. He was among those dissatisfied with the Albers management. At the election, from which Mr. Morrill was absent, Mr. A. L. Nagel, vice-president, and Mr. B. H. Kroger, Jr., a director, resigned. They stated that the reorganization was the result of a "friendly disagreement," and that the former management was criticized because of the rapid expansion and the methods employed to accomplish it. The following quotation from the 1930 annual report indicates the caliber of certain of the key men in the new management and the aims and purposes of Mr. Morrill in securing such men:

> The operations of your company cannot be mechanized. It is from first to last dependent on the character and morale of its personnel, to a degree unknown in a manufacturing operation. Therefore, immediate and vigorous attention was given to the personnel beginning April 1, 1930.
>
> During the last nine months, the official personnel has been strengthened by the addition of Mr. Charles M. Robertson, vice-president and treasurer, assigned to the department of finance and accounting; Colonel C. O. Sherrill, vice-president, assigned to the department of engineering, which includes plant layout, manufacturing methods and processes, automotive equipment, design and use, and research pertaining thereto; and Mr. Alvin E. Dodd, assistant to the president, who came to us with a wide merchandising experience. Mr. J. B. Bonham, vice-president assigned to merchandising operations, has added the last nine months to his previous many and effective years with your company.

These men were experienced executives: one had formerly been treasurer of a piano company and president of an advertising agency; another had been interested in retail merchandising and distribution for many years — for two years he had been assistant to the president of Sears, Roebuck and Company, where he had been in charge of retail operations, particularly of store personnel and of public relations; and still another had been city manager of Cincinnati.

Retrenchment Begins

When Mr. Morrill came into office, he announced that there would be no general revision of policies. There was, of course, to be a general tightening up; expenses were to be reduced. No specific changes were to be made until Mr. Morrill had had an opportunity to become better acquainted with the details of the business. Almost at once, however, certain stores which the management considered unprofitable or unwise to operate were closed. The previous acqui-

sition of chains had created considerable duplication of service; there were 5,575 stores on December 31, 1929, 5,165 stores on January 3, 1931. Although this was a decrease of 410 stores, full judgment cannot be made upon figures, for numbers of stores are misleading; the variations in size, localities, lines handled, margins of profits on the lines, and the consequent profit on each store operation are influential factors.

The Piggly Wiggly Corporation was also affected: store layouts and methods were modernized; several new and important patents were evolved and patents were applied for; 209 stores were eliminated by being closed or merged into larger units. At the same time, an aggressive policy of promotion produced 33 new contracts with established and experienced operators; 1,261 new stores would be opened over a period of years. One of the contracts was with a company abroad.

As a correlative move with the closing of undesired stores, the management proceeded scientifically to prepare a basis for future expansions and for immediate replanning of store layouts. Of the stores in the Kroger system, 800 were still operating under the names which they bore before acquisition. The policy of the management was to close those stores that were unprofitable and to change to the Kroger name, when it proved expedient, those stores it desired to keep. Plans relative to general store development were explained as follows:

> Plans for expansion by an orderly process of opening new stores in desirable territory will be completed shortly and will be based on exhaustive research work as to customer possibilities and population trends, taken in connection with our existing branch facilities.
>
> Stores have been remodeled during the year to the number of 843, the remodelling being accomplished almost entirely by the rebuilding of old equipment by our own departments and by the factory located at Jackson, Tennessee, of the Piggly Wiggly Corporation, owned by your company. A program of extensive similar remodelling of stores is planned for 1931.[1]

Personnel and Training

The company reduced the number of employees from 24,000 in December, 1929, to 22,000 in December, 1930. As the scientific approach to the opening of new stores had been correlative to the elimination of unprofitable stores, so also was the installation of new methods of employee selection and training correlative to the pruning of the chain personnel. Mr. Paul Mooney, a man of considerable personnel experience, joined the Kroger staff in January, 1931; his

[1] Annual report, 1930.

position was director of personnel. As the morale of the employees was exceedingly low, a major undertaking was to reëstablish the *esprit de corps:* a definite program of selection and training was initiated; personal contact between officials, executives, and employees, and between the home office and branch organizations was greatly improved; and a system of conferences between the various groups was inaugurated. Executives were enabled to familiarize themselves with all phases of the business through temporary transfers, and present and prospective supervisors, store managers, and meat cutters could attend a training school for 16 weeks; standards of meat cutting and salesmanship were taught under skilled instruction.

Control and Decentralization

One of the first moves of the Morrill management was that of changing existing methods of control; centralization of operations was abandoned early in April, 1930. Decentralization was the keynote of the new program. The control of operations was at first partially divided among 26 branch offices. The manager in charge of each branch office was given control over personnel and over store and warehouse inventories. He was held responsible at the home office for the results in his territory, including small local purchasing; major buying was retained at the general office. Decentralization thus considerably reduced duplications in reports and communications, while the localization of operations created a community of interest between the company and its customers. The company also changed its method of purchasing produce; a Produce Buying Corporation, with offices in the principal produce centers was organized on November 22, 1930. This enabled the company to purchase and sell a highly perishable and profitable class of merchandise under the most advantageous circumstances.

A Re-audited Statement

Three weeks after the 1930 annual meeting and his election as president, Mr. Morrill issued a re-audited statement of the 1929 earnings and balance sheet.

Kroger Grocery and Baking Company and Subsidiaries

Balance Sheet

Assets	*After the Re-audit — 1929*	*Before the Re-audit — 1929*
Land, Buildings, Equipment, etc. (less depreciation)	$24,151,355	$24,151,355
Goodwill	1	1
Investments and Advances	7,410,463	7,354,711
Employees' Common Stock	264,479	264,479
Current Assets:		
Cash and Marketable Securities	7,516,136	7,516,136
Accounts and Notes Receivable	1,325,301	1,325,301
Inventories	22,080,580	22,340,581
Total Current Assets	$30,922,017	$31,182,018
Deferred Charges, Prepaid Items, etc.	916,745	988,414
Total Assets	$63,665,060	$63,940,978
Liabilities		
Common Stock	$31,358,150	$31,358,150
Preferred Stock	144,400	144,400
Preferred Stock of Subsidiary Companies	1,173,600	1,173,600
Fixed Debt	733,000	733,000
Employees' Stock Subscription	1,712,607	1,712,607
Current Liabilities:		
Accounts Payable	7,581,619	7,581,619
Other Current Liabilities	1,515,960	1,572,405
Total Current Liabilities	$9,097,579	$9,154,024
Reserve for Insurance, etc.	398,978	398,978
Capital Surplus	1,379,694	382,475
Earned Surplus	17,667,052*	18,883,744
Total Liabilities	$63,665,060	$63,940,978
Net Working Capital	$21,824,438	$22,027,994

* Of this amount, $1,621,707 is appropriated for stock dividends and $500,000 for adjustments, if any, in prior years.

Source: Data assembled from annual reports of company and from *Poor's Industrials*, 1930, p. 952.

KROGER GROCERY AND BAKING COMPANY AND SUBSIDIARIES

Consolidated Income Account

	After the Re-audit — 1929	*Before the Re-audit — 1929*
Net Sales	$286,611,215	$286,611,215
Cost of Sales	241,730,872	241,161,982
	$44,880,343	$45,449,233
Other Income:		
Interest Received	116,873	116,873
Discount on Purchases	1,610,825	1,610,825
Accrued Earnings for 1929 Affiliated Co.	821,793	766,041
Gross Income	$47,429,834	$47,942,972
Store Expenses	37,640,734	37,640,734
Administrative Expenses	1,313,135	1,313,135
Depreciation	1,860,260	1,860,260
Income before Interest and Federal Taxes	$6,615,705	$7,128,843
Interest Paid	58,653	58,654
Income before Federal Taxes	$6,557,052	$7,070,189
Allowance for Federal Taxes	637,955	694,400
Income Carried to Surplus	$5,919,097	$6,375,789
Preferred Dividends	91,744	91,744
Common Dividends	1,693,008	1,693,008
Earned per Share Common	3.38	3.54
Common Stock Dividend	5%	5%

Source: Data assembled from annual reports of the company and *Poor's Industrials*, 1930, p. 950.

The statement of the president to the stockholders stressed the following three changes in accounts:

1. A deduction in earnings previously reported for 1929 of $456,692.
2. A reduction in earned surplus as of January 1, 1929, of $760,000.
3. The immediate establishment of a contingency reserve of $500,000 to cover further errors, discrepancies, or inaccuracies, if any, affecting prior years.

Mr. Albers resigned as chairman of the board of directors, stating that this act was for the good of the company, but that the necessary changes in the accounts were "purely a matter of bookkeeping." In 1930, it was found necessary to make further accounting adjustments. During the year 1930, the management installed a new system of

accounting and of budgetary control and made certain organization changes. Of these changes and of the need for them, the following comments were made:

> As the result of many months of study, there has been established an organization plan, with the activities of the company grouped in appropriate departments, under definite lines of responsibility and authority, which have been totally lacking in the past. This reorganization has been completed and all activities are now being carried on under it with marked increase of efficiency.
>
> * * * * *
>
> On October 1, 1930, for the first time in the history of your company, there went into operation as a preliminary test a system of budgetary control, under which all items of prospective operations for the various periods are estimated. Under such control, definitely effective January 4, 1931, each activity of the company can be checked from week to week against the budget estimate. While budgetary control in your company is in its infancy, it has already proved its value.
>
> The management found it necessary, during 1930, to report to you adjustments amounting to $1,284,294 net. During the last months the accounting system and to an extent the personnel of the accounting department have been completely reorganized, and new and accurate systems installed.[1]

Mr. Morrill not only made a thorough study of the internal factors which had influenced or were influencing the Kroger Grocery and Baking Company, but of the external factors as well. He believed that the price appeal had been over-emphasized, with the result that independent grocers were improving their position by a quality and service appeal. A special investigation of Kroger stores showed that of all customers 50% bought because of price, 25% because of convenience, only 16% because of quality, and that 75% purchased some goods at other chains and independent stores. A further study disclosed that of the consumers patronizing independent stores only 13% did so because of price, 23% because of convenience, 25% because of better service, and 35% for better quality. Mr. Morrill inaugurated policies which were designed to correct these proportions.

V

Budgetary Control

August 7, 1930, marked the first step leading toward budgetary control of the operations of the Kroger Grocery and Baking Company. On that date a meeting was held at which the purchasing

[1] Annual report, 1930.

manager, the chief accountant, the head of the research department, and a representative of the operating departments were present. Mr. J. O. McKinsey of James O. McKinsey Company of Chicago and author of Budgetary Control outlined the salient features of budgetary control and gave instructions to the men present on the method of grouping merchandise. Five days later Mr. McKinsey suggested an instruction letter to accompany classification lists to branches, and on August 18, the completed classification and the suggested letter were sent to him for approval.

Preliminary Budget Procedure

The branch managers were first approached on August 25, when the merchandise classification was sent to each branch with an explanatory letter and with instructions to prepare a sales budget for the last three months of the year. Each merchandise classification was coded with a title, such as "Good," "High," "Loss," or "None," depending on its gross profitableness. This rating was merely a reminder to the branch managers; they, as well as the home office officials, should know their gross profits. The chief accountant arranged with the branch accountants to analyze the fourth quarter figures with the Powers equipment then being installed at each branch.

The forms, sent to the branch managers on September 18, were prepared by the head of the research department, who was inexperienced in budgetary procedure. The forms were incomplete and the accompanying explanations were not in sufficient detail to enable intelligent budget preparation. There were no follow-up letters; the branch managers were left to their own devices. Additional forms were sent out on October 23, again with incomplete explanations. The branch managers had been told that the plan of budgetary control was an experiment.

Director of Budgets Appointed

Mr. J. H. Sadler was appointed Director of Budgets on November 1, 1930. Although he had had no experience in chain store operations, Mr. Sadler was well versed in the mechanics and the salesmanship of budgetary control, having previously assisted with the installation and operation of budgetary control for Armour & Company, packers, and Cheney Brothers, silk manufacturers.

In the first two weeks of November, a complete and thorough survey of the operating, financial, and accounting procedure of the company was made. With the information and knowledge acquired as a result of this study, a tentative outline of budgetary procedure

was prepared, including a summary of its purposes and advantages along with general and detailed instructions to the branch managers. A set of entirely new forms, which were far more complete and detailed than any preceding, was drawn up at the same time.

When this complete outline was ready, the first of four district meetings was held on November 18, 1930. Each of these district meetings was attended by Mr. Robertson, vice-president and treasurer, the chief accountant, and Mr. Sadler, representing the home office; by each branch manager, chief branch accountant, and usually a junior branch manager, representing the branches of the district; and by each district manager. The plan was not presented as final; the branch managers were requested to help reconstruct a final workable system of budgetary control since they were to have all responsibility for its accomplishment. One specific request and one definite promise were made at each meeting: the request was that all budgets for the first three periods of 1931 be completed and mailed by December 15; the promise was to have in the branch managers' hands by December 1, the final procedure and forms embodying all suggestions of the branch managers that they had proposed and mutually accepted. Most of the complete budgets were in the general office by December 20, and all by December 31.

Purposes, Advantages, and Uses

The purposes, advantages, and uses of budgetary control were carefully explained at the district round table meetings. It was stated:

> Complete budgetary control contemplates the coördination of the activities of the respective functional divisions of the business into a master plan to be directed from the office of the chief executive.
>
> It may be said that the budget represents the charted course along which the business is to proceed and any deviation from this plan represents the extent of over- or under-accomplishment. A picture must be presented at once to the responsible executives showing to what extent they have left the charted course, and the steps necessary for a return thereto.

The advantages to the company from the use of budgets were then outlined. A summary of these advantages follows:

1. Budgetary control necessitates the planning and thinking ahead of the executives in charge of major divisions.

2. It necessitates a closer and more advantageous relationship between subordinates and executives because the junior executives must help plan the budgets and the executives must discuss these plans with them.

3. Carefully prepared and administrated budgets provide an effective means of coördinating the various activities of the business, *e.g.*, if sales budgets, inventory budgets and financial budgets are considered in relation to each other, they provide an effective means of coördinating the activities of the sales, purchasing, and financial departments.

4. Budgets provide for the executives an effective means of exercising control over the activities of the business. As they know in advance the plans of their subordinates, they have a definite standard with which to judge the accomplishments of their subordinates.

5. Budgets provide an incentive to the makers of the budget as a definite goal is set.

6. The recording of budget estimates and actual performance over a period of time provides valuable data for future setting of budgetary standards.

There was also outlined, for certain cases, the specific type of objective which the management hoped would be obtained by the use of budgets. These objectives are summarized as follows:

1. The reduction and control of inventories through carefully planned sales, inventory, and purchase budgets.

2. Release of cash reserves for the retirement of loans or for more productive purposes and interchange of cash from branch to branch through the use of planned cash receipts and cash disbursements budgets.

3. Increase in net profits through proper control by budgets of selling, manufacturing, administrative, and general expenses.

4. Increase in profits from sales and gross profits control, inventory control, etc.

Plan and Responsibility

The budgets were based on the new calendar of 13 accounting periods of four weeks each, under which operations began January 4, 1931. The budget period was either three or four accounting periods, but the makers of the budget were urged to always think a year in advance. The branch managers were requested to complete and mail their budgets on specified dates, an arrangement being made for the staggering of the reports on budget and actual accomplishments so that the work would not become too heavy either at the branches or in the general office.[1] These reports were sent in at the end of each period and were cumulated.

The branch manager was responsible for the sales, the gross mark-up, the inventories, and many of the expenses of his branch.

[1] Appendix F gives the mailing dates and method of cumulation.

It was true that the home office and the officials could and did influence the final profits of the branch through their control over broad policies, and their direct control over certain expenses and over-purchasing. But the branch manager in the Kroger organization was the center of all operating activity, and he, with the help of his "key" men, made out the budgets for the branch. This definite placing of responsibility on the branch manager was the key factor of the entire system of budgetary control in the Kroger Grocery and Baking Company. Although the Budgetary Committee, which was composed of the chief officers and the budget director, had the power to change the budgets, it never did, and it was extremely doubtful if it ever would. A branch manager could make a request for a budget revision during a budget period — the advantage of this privilege, however, has seldom been taken.

Assistance from Home Office

The main office officials, the Budget Department, and the Budgetary Committee all served to assist the branch manager in various ways in preparing his budget. Most of these aids were given the branch manager through the Director of Budgets who acted as agent, negotiator, and arbitrator between the branches and the officials at the home office. The district managers saw that the orders of the budgetary department were carried out, and the Budget Department acted directly, and through them, in its relation with the branch managers.

Toward the end of each budget period, the sales department had its prepared sales plan sent to all the branch managers. In this sales plan, the branch manager was given all the proposed sales events and suggested special prices for the coming budget period. The plan was an invaluable aid to the branch manager in preparing his sales, gross profit, inventory, and purchasing budgets.

Naturally the various functional officers, such as the division sales manager and the purchasing manager, were not always satisfied with the accomplishment of the branch managers. Complaints were referred to the Budget Department, which could note inconsistencies, tardy turning-in of budgets, inaccurate calculations, and poor accomplishments. The Budget Director did not often order actual changes in procedure; and he conveyed his dissatisfaction and that of others indirectly and tactfully, but forcibly. Frequently, the functional officers or the district managers let a branch manager observe the accomplishments of other branches in his district and of the company as a whole. The comparative accomplishments spoke eloquently for themselves — few comments were needed.

The letters sent from the Budget Department were more than mere comments on procedure: the attempt was made to instill confidence, to encourage competitive spirit, and to reprove tactfully. In a letter at the end of the first period, the branch managers were complimented, but the personal attention of those branch managers who had fallen down on their budgets was suggested:[1]

Dear Sir:

You will no doubt be very much interested to know the results of budget operations for the first period. We show below the per cent accomplishment for the combined total of all branches of the more important items covered by the budget. In the first column is listed the average accomplishment for all branches combined; while in the second column we show the per cent accomplishment for your branch.

	Average Per Cent Accomplishment — All Branches	*Per Cent Accomplishment*
Grocery Sales	97%	....
Meat Sales	93	....
Total All Sales	96	....
Grocery Gross Profit	98	....
Meat Gross Profit	100	....
Net Profit	97	....
Expense*	101	....
Inventories*	101	....
Cash Receipts	98	....
Cash Disbursements†	99	....

* Reduction of expenses is reflected in better than 100% accomplishment.

† This indicates the per cent which your actual receipts and disbursements were of the budget.

You will please go over your own accomplishment and compare it with the company as a whole and see to what extent you have contributed to these excellent results. Any marked variation from 100% accomplishment will merit your personal attention in order that your branch may always be as good or better than the average.

Your executives at the General Office are highly pleased with such accurate budgeting for the company as a whole for the first period.

Yours very truly,

The Budget Department, as previously indicated, made summary comparisons of the branch budgets and actual accomplishments. The following budgets were summarized[2] and compared with the actual: (1) Sales, (2) Gross Profit Percentages, (3) Inventory, (4) Expenses, (5) Profit and Loss. The entire procedure of the company covered 12 budgets:[3]

[1] Copies of other letters are presented in Appendix G.

[2] Appendix H presents an outline of the summarization.

[3] Appendix I contains the details of each of these budgets along with all the forms, except BG, BI, and BD.

1. Sales (Form BS)
2. Cost of Sales (Form BC — Same as BS)
3. Purchasing (Form BP)
4. Manufacturing (Form BM)
5. Gross Profits (Form BG — not given)
6. Inventories (Form BI — not given)
7. Expenses (Form BE)
8. New Construction and Equipment (Form BT)
9. Cash Receipts (Form BR)
10. Cash Disbursements (Form BD — not given)
11. Profit and Loss (Form BF)
12. Balance Sheet (Form BB)

The branch accountant worked hand in hand with the Branch Manager. The branch accounting department furnished the actual accomplishments and prepared the balance sheet and profit and loss budgets. It also helped in the preparation of other budgets, such as salary budgets and expense budgets where certain expenses though easily determined were changed with difficulty. The accounting department supplied information as to past activities. In fact, whenever the budgetary procedure became routine, or where the branch manager's responsibility ceased, the accounting department became the important party. In this way, the branch manager could concentrate on his work, that of actual operating and that of the planning of future operating. These plans were reflected in his budgets.

Selling the Idea

The statement was often made that the most difficult task in the installation of budgetary control was that of selling the idea. There was very little antipathy to the idea of budgetary control shown at any time by the Kroger organization. Before the first district meetings in November, 1930, the branch managers could be divided into four groups:

1. Those actually enthusiastic;
2. Those sympathetic, but to whom the value of budgetary control had to be proven;
3. Those skeptical and to whom the new idea had to be sold;
4. Those actually opposed to the budget.

As a result of the tactful methods used in initially introducing budgetary control and later in expanding it, most of the branch managers became enthusiastic supporters. In July, 1931, only 2 of the 23 managers could be said to be still skeptical, and none remained in opposition.

Benefits and Results

Mr. Sadler, addressing the branch managers, district managers, and members of the home office at the Kroger French Lick Meeting, held in June, 1931, summed up the benefits obtainable under budgetary control and the actual accomplishments achieved by the company since its operations were so controlled. He stated:

Among the Benefits Obtainable are the following:

1. Reduction and control of inventories through the elimination of surplus stocks — as a result of coördinating purchases and sales.

2. The gradual elimination of over-buying of individual items through the use of sales budgets as the basis of making purchases, thereby eliminating large quantities of forced-sale merchandise.

3. Provides for individual consideration of the various problems with respect to planned sales volume and gross profits for each commodity, thereby enabling you to solve these problems more definitely; in other words, you "drive pegs" instead of "pounding sand."

4. Brings your entire organization together as one man, all with the same goal, thinking, planning and doing the job together with each one knowing what all other members of your organization are doing at the present, and planning for the future.

5. Business is intelligently operated only when it is founded on a well ordered plan. With the course charted and the ultimate objective kept constantly in mind, there is no disconcerting loss of power in your business drive.

6. Eliminates wasteful and extravagant practices particularly with regard to expenses, by the budgeting of reasonable expense standards such as will permit the making of profits. The savings made through the prevention of mistakes and excessive expenses is profit, just as the difference between cost and selling price is profit.

7. Increases net profits by focusing sales attention on the commodities with high gross profits.

8. Prevents unwise expansion by requiring budgets of expenditures and computation of anticipated profits from such expansion, before approval.

9. Provides for the control and utilization of the cash resources effectively, which eliminates unnecessary borrowing and permits the investment of idle funds.

10. Provides for the interchange of valuable information between Branch Managers regarding sales, gross profits, expenses and inventory policies.

11. Permits the General Executives of our business to review and study your operations prior to your commitments, enabling corrective action before it is too late.

12. Through the preparation of a complete budget covering future

operations, an alert executive gets a more intimate knowledge of his operations than is possible by any other process.

All of these benefits have been at least partially attained. Certain of them, as 1, 3, 7, 8, 9, 10 and 11, have been definitely attained.

The following actual accomplishments were cited:

1. Actual sales for the first three periods for all branches were within two and one-half per cent of the budget.

2. Actual gross profit percentage for all branches combined for the first three periods was within one-half of one per cent of the budget set for this item.

3. Although the budget set as a goal the reduction of inventories to nearly six million dollars less than the actual as of the same day (end of March) last year, the actual inventory was one per cent less than the budget for all branches combined, proving that inventories are being controlled through our budget machinery.

4. Actual expenses for all branches were one-third of one per cent less than the budget — a truly remarkable showing, although unfortunately expenses were not reduced proportionately with sales.

5. The actual sales of our Company for this year to date make the best comparison with the same period of last year of any of the leading chain grocery companies with but one exception. While this may not be attributable to the budget, we are certain that the establishment of sales objectives by the various units of this business has had a decidedly stimulating and beneficial effect on sales.

6. We are now operating on the best inventory turnover ratio that this Company has enjoyed since it reached its present size. This, we feel, is a direct reflection of Budgetary Control.

*Inventories**

December 31, 1929	$22,080,581
January 3, 1931	19,937,672
June 20, 1931	16,990,412

* Cost or market, whichever is lower.

7. Through the information as provided by Budgetary Control machinery, management is being informed as to —

(*a*) What has happened.
(*b*) What is happening.
(*c*) What is expected to happen — under certain conditions.

as well as —

(*d*) What may happen.
(*e*) What can happen.
(*f*) What will happen — under varying stipulated conditions.

8. Through the information provided, unsatisfactory operations are being corrected before those operations begin.

9. Reports are being regularly presented to the management showing the per cent accomplishment against the budget, thereby

informing management of the extent which we have left the charted course, and indicating action necessary for a return thereto.

10. District Managers, Sales Managers and other General Office and Branch Executives are being supplied with usable information regarding the business, through which operations are better controlled, weak spots bolstered, and increased profits realized.

11. The interchange of comparative budget and actual sales, gross profits, inventories and expense information between branches has already been productive of a great amount of good, and is leading to substantial improvements with respect to each of these items, also the establishment of profitable operating standards.

The actual performance of the company, as a whole, compared favorably with the budgets from the outset.

Record of Actual to Budget
For First Five Periods of 1931

Period	*Sales**	*Gross Profit %*	*Expenses**	*Inventories**	*Cash Receipts*†	*Cash Disbursements*†
1	96	99	101	101	100	103
2	97	98	99	100	98	98
3	99	97	99	101	100	101
4	101	97	98	101	99	101
5	99	98	99	100	100	100

* Per cent accomplishment — in the case of expenses and inventories a percentage of less than 100% means an increase.

† Per cent of actual receipts or disbursements to the budget.

Analysis of Budget and Actual

The final step in the budgetary control procedure was the analysis of the figures, actual and budget, and the deviation of the actual from the budget. In some businesses, very elaborate and complicated studies are made of the deviations. In the case of the Kroger Grocery and Baking Company, the analysis was not so elaborate as it was minute and painstaking. The branch managers were required to prepare an individual sales, gross profit, and inventory budget for every commodity. These budgets were carefully studied by the Budget Director and other officials at the home office. The deviation from actual in the comprehensive budgets indicated "what" had been the failure of the branch manager; the deviation in the individual commodity budgets often indicated "where" the failure was. The function of the budgetary department had been fulfilled when it had pointed out the "what" and the "where"; discovery of the "why" was in the province of the branch manager. The probable value of this study may be seen in the following case.

A certain branch manager had over the first few periods made a fine record: his branch led in sales increases, profit increases, expense cutting, and inventory lowering. Moreover, the deviations from actual accomplishments were small. However, the analysis of his branch's individual commodities showed that in certain instances, it was far below the average of other branches in the district. Over-accomplishment in some cases had more than offset the failures in other cases. When this inconsistency was called to the branch manager's attention, he was surprised, but answered that his branch would soon lead not only in total accomplishment, but also in individual commodity accomplishment. Furthermore, this ambitious branch manager almost succeeded in carrying out his aims. Certain it is that his record was greatly improved.

Dangers and Precautions

Budgetary control can result in real benefits; it also can breed real dangers that may result in harm. Two of the more striking of these dangers are (1) the setting of too low a standard, and (2) lop-sided accomplishment. Certain of the precautions taken by the company against these dangers have been indicated. If those at the home office felt that a particular budget was too low, too easy of accomplishment, it was sent back with a letter expressing the dissatisfaction of the officers. The branch manager was shown the budgets of other branches where more ambitious goals had been set. Thus, by indirect coercion, this danger was usually overcome.

Lopsided accomplishments were readily noted. High gross profit at the expense of sales and ultimate total net was quickly called to the attention of the branch manager. Inventory reduction can be carried too far. But in the case of this company, the smaller inventory of 1931 was more logically balanced inventory than probably any in the company's history. The individual commodity analysis that gave the "where" was the final precaution against the danger of lopsidedness.

Mr. J. O. McKinsey clearly voiced his approval of the policy changes and of the new budget plan installed by the Kroger Grocery and Baking Company, in the following letter:[1]

January 10, 1931

Mr. Albert H. Morrill

Dear Mr. Morrill:

During the past six months I have had an opportunity to observe various changes in management which have been made in your company. I think the most important improvements which have

[1] This letter was presented in the annual report of the company for the year 1930.

been made since your election as President can be summarized as follows:

1. The morale of the organization has been greatly improved. I have detected a very great change during the last few months in the attitude of these employees. They now have a real loyalty for the Company and have full confidence in the management.

2. You have worked out an organization for your company which is in harmony with modern tendencies and have clearly defined the responsibilities of your various executives, which I think will promote coöperation among those in positions of responsibility.

3. You have improved the personnel of your organization to a very considerable degree in two ways:

4. You have established efficient methods of controlling your activities. Most important of these is the budget plan which becomes effective as of January first. I am sure your budget program will give you an effective means of guiding and controlling the activities of the company as a whole, so that all members of the organization can work together in the carrying out of a definite, well coördinated program.

5. You have established better methods and procedures for the performance of activities and this will promote efficiency and economy. For example, your accounting methods have been entirely revised so that you may have effective control over your activities and accurate information for the use of executives.

I feel sure that a continuation of the program on which you have been working during the past few months will bring very decided benefits to your company during the year 1931.

Sincerely yours,

JOM/R J. O. McKinsey.

VI

Merchandising and Related Problems

The articles sold under the Kroger private brand, "Country Club," have long been an important factor in the sales of the company. The development of the brand, a major policy of the company, was a difficult fight in the face of the heavily advertised national brands. However, the Kroger Grocery and Baking Company was singularly successful in building a reputation of quality for its Country Club brand. Although most of the well-known nationally advertised brands of foodstuffs are carried in the Kroger stores, the 100 or more items carrying the Country Club brand enjoy a good demand as instanced by the fact that in some cases more than one-half the total sales of a single item are of the private brand.

Advertising and Coöperation

The Morrill management continued to push the items selling under the Country Club brand. It decided, however, to go beyond the attempts of the old management, for it was believed that one of the greatest phases of chain grocery merchandising was new ideas. For 50 years, price advertising had been successful; no doubt it will always remain fundamental. But Kroger created a different kind of advertising, for the new management discerned a need of sympathetic interest in its business which led to institutional advertising of the highest type for retail business. The company emphasized a method or a policy and with the aid of pictures stressed quality and service. For example, one advertisement which had a picture of a ship carried the title, "Across Seven Seas and Five Continents Come These Delicacies."

The company also coöperated with Chambers of Commerce, prominent political, business, civic, and educational men and women in various cities by boosting the city. In the case of Cleveland, advertisements were run in which the copy was 90% on Cleveland and 10% on Kroger. Some of these advertisements carried a picture of a Kroger warehouse located in Cleveland, with a caption such as "An Evidence of Kroger's Faith in Cleveland's Future." Similar campaigns were run in Cincinnati, Toledo, Columbus, and other cities. The company also offered prizes for essays and other contests. When a new warehouse was opened, a housewarming was held; at these affairs the travelling ovens were in operation and a loaf of bread or other product was given to each guest. The procedure was quite systematic, for each store manager gave his customers card invitations and then personally conducted them through the plant.

Food Foundation

The Kroger Food Foundation was formed to help serve merchandising and advertising ends.

> Extensive research during the last seven months indicated conclusively that price appeal alone would not in the future give to Kroger the goodwill and volume to which it is entitled. It appeared clearly that Kroger must be something other than just another grocery chain. To meet this necessity there has been established and is now being developed what is known as the Kroger Food Foundation. It is headed by Doctor Andrew H. Ryan, a food scientist of national reputation. Under his direction there will be developed standards of food quality and content, to which Kroger merchandise must conform, standards and methods of home dietetics, and scientific and nutritive research which will be of great benefit to Kroger customers and to the food industry as a whole. The Foundation is the first insti-

> tution of its kind in the grocery chain industry and has met with general approval. It will be maintained by an expenditure of an amount equal approximately to the return on $1,000,000.
>
> Any increased expenditure due to operations of the Foundation should be more than offset by increased sales and profits when our consumers have become familiar with the work and value of the Foundation.[1]

That the Foundation and the new aims of the management may prove successful is suggested by this fact: in May, 1931, most Kroger stores selling under the Kroger name had increased sales for the year over the same period in 1930; the 800-odd stores owned by the company, but operating under their own names, had shown a decrease in sales.

Super-stores and Special Services

New type stores — with more lines and special services — were another contribution of the Morrill management. Through an arrangement with Sears, Roebuck and Company, food departments, owned and operated by the Kroger Grocery and Baking Company and more complete than the ordinary Kroger unit, were opened during 1930 in the retail stores of the former company located in Chicago, Minneapolis, and Cincinnati. These units carry both groceries and meats. During 1931, this development was extended by establishing such departments in two stores in Detroit, two in St. Louis, and one each in Indianapolis, Kansas City, and Memphis. This practice was and still is an experiment; Sears, Roebuck and Company hoped to determine whether or not the addition of a grocery and meat line would bring more people to its stores and would in itself prove profitable. Sears, Roebuck and Company had ample floor space in its stores and the experiment necessitated no change in its general merchandising plans. Originally planning to operate such departments, Sears, Roebuck and Company made the arrangement with Kroger in the belief that it could profit from the many years of experience Kroger had had in the chain retail business. Sears, Roebuck and Company discontinued selling groceries by mail.

The Kroger Grocery and Baking Company was also experimenting with what the management termed the "super-store" — somewhat of an innovation in the grocery chain store industry. The stockholders at the annual meeting in March, 1931, amended the articles of incorporation to permit the selling and serving of meals, lunches, confections, and soft drinks. The first Kroger super-store was opened in Cincinnati on June 6, 1930; it carried about 16,000 articles — twice the number handled by the average grocery store;

[1] Annual report, 1930.

and its sales volume was estimated to be eleven times that of the ordinary unit. This store sold cigars, cigarettes, candies, magazines, and delicatessen goods; and in the store was a 50-foot soda fountain, which served salads, sandwiches, luncheons, sodas, and ice cream, and an information bureau for the benefit of tourists and patrons. A second super-store was opened in St. Louis. Super-stores were artistically decorated and — according to the management — furnished good publicity for the Kroger chain and were sound investments in themselves; they varied in size and equipment according to the population centers which they served. The company at the close of 1931 was operating nine such stores in addition to the original store in Cincinnati. Of possible future super-store expansion, the following statements were made:

> . . . Careful survey of other large urban centers, in which we operate, has enabled us to formulate a policy for the establishment of similar large stores in these centers.[1]
>
> . . . The net earnings of these units have justified the investment.[2]

Although the management was experimenting with new types of stores, it was not neglecting the ordinary store; its aim was to have all units as nearly complete food stores as possible. With this end in view, meat departments and produce departments were being installed in small grocery units, whenever it was considered practical. In 1931, most of the Kroger stores had produce departments, and over one-half of the stores had meat departments. Daily truck service to all Kroger stores was another innovation which resulted in fresher foods for the patron and lower inventories for the individual store. During 1931, the company remodeled 874 stores and opened 156 new stores. "The 1932 remodeling program contemplates careful consideration of each separate store and its individual situation, remodeling to be undertaken only when it is determined to be clearly advisable."[2]

The largest single contract made by the Piggly Wiggly Corporation for stores of the master type was with the Almar Stores in the Philadelphia territory; three stores were to be opened by September 1, 1931, 50 by September 1, 1932, and a larger number each year until 1,000 stores have been established by the end of 8 years. Other contracts called for the opening of approximately 500 stores in Chicago, Kansas City, Columbus, Detroit, and Pittsburgh within the next two or three years.

In April, 1932, the Piggly Wiggly Corporation cancelled its contracts with the National Tea Company. This cancellation affected

[1] Annual report, 1930.
[2] Annual report, 1931.

about 118 stores operated by the National Tea Company's subsidiaries in Kroger's territory in the Middle West. A new company, the Great Lakes Piggly Wiggly Company, has been granted franchise contracts, however, and will open several deluxe stores in the Chicago area; 250 stores will be opened in the next few years. The president of the Great Lakes Company, Mr. J. R. Peters, was also president of the Almar Stores of Philadelphia. The National Tea Company —

> ". . . has concentrated on expansion of its own type of stores under its own name. Some Piggly Wiggly stores, in the normal course of meeting neighborhood trade shifts, have been replaced with National Tea units. Newspaper advertising in Chicago has been under the National Tea Company name, with the statement displayed in smaller type in sub-heads that the same merchandise and prices were available at Piggly Wiggly stores."[1]

In August, 1931, one of the largest chain store systems in England contracted for the Piggly Wiggly methods and equipment. This company operated in London and southern England and planned to open several experimental stores in the near future; the popularity of the self-service methods will determine the number of stores to be opened.

VII

Manufacturing Activities of the Business

The manufacturing activities, for the most part, were simple; they comprised slaughtering and meat packing, baking of bread, crackers, and cakes, coffee roasting, dairying, candy making, and packing of such articles as pickles, olives and condiments. No fruit or vegetable canning was undertaken; contracts for such products, whether for "Country Club" or other brands, were made with various canners. The company diligently followed the policy of avoiding manufacturing, except in those situations where the control of supply — such as in bread — was an important feature in its distribution scheme.

Meat Packing

The slaughtering and meat packing activities of the company were old features of the business: they did not come about through the 1928 and 1929 expansion program. However, when this part of the business was established it was profitable, like the entire meat packing industry. Within the last few years, little or no profit has been made in this division. If the facilities did not exist, it is doubtful if the company would undertake meat packing today, for meat

[1] *Wall Street Journal*, April 18, 1932.

products could be purchased as cheaply elsewhere. Meat packing and slaughtering were conducted in separate buildings.

Other Manufacturing Activities

The baking of bread, crackers, and cakes, coffee roasting, bottling of milk, candy making, and the packing of sundry articles were all done in the warehouse buildings. These manufacturing functions, however, were conducted as separate enterprises: they had no connection with the warehouse functions.

Of all the manufacturing activities, bread baking was by far the most important. The perishable nature of the product and the control of quality and supply were the reasons why it was necessary for the Kroger Grocery and Baking Company to consider baking one of its important divisions. The company's experience proved that it secured a considerably greater proportion of bread business when it baked its own bread; this was true even though the various stores also carried the best local brand of bread.

Crackers and cakes, especially fruit cakes, were a different matter: they were less perishable. The company consolidated cracker production wherever it could economically. Recently, the cracker producing plants at Cincinnati and Cleveland were closed and production for these districts was centralized in the Columbus and Detroit plants. This concentration of production was carried to other lines: the coffee roasting plant in Columbus was closed and this production was assumed by the Cincinnati plant. The present distribution of manufacturing is as follows:

Cincinnati	Bread, Cake, Coffee, Dairy, and Packing House
Columbus	Bread, Cake, Cracker, Packing House
Dayton	Dairy
Roanoke	Bread, Cake
Cleveland	Bread, Cake
Detroit	Bread, Cake, Cracker
Grand Rapids	Bread, Cake, Dairy
Toledo	Dairy
Chicago	Bread, Cake, Coffee
Fort Wayne	Bread, Cake
Indianapolis	Bread, Cake, Dairy
Louisville	Bread, Cake
Madison	Bread, Cake
Memphis	Bread, Cake
St. Louis	Bread, Cake, Coffee, Cracker

Coffee roasting was centralized in few places because, unlike bread, it was less perishable, and it had a higher value. Shipping costs were approximately equal on the two products, but bread sold for 4 cents a pound while coffee sold for 27 cents a pound; the weight

displacement in shipping was about the same. Once canned, shipping had little or no effect upon coffee, but shipping had a material effect upon bread — especially if it was not properly cooled. To properly cool bread, and ship it a great distance consumed so much time that the bread was stale before it reached the market. Bakeries proximate to the consumption point were indispensable. Recently, the company opened a coffee buying office in New York City. Previously, the company had purchased its coffee through jobbers or factors, but it gradually developed that a coffee expert was needed. Unlike the Atlantic and Pacific Tea Company, the Kroger Grocery and Baking Company does not expect to integrate to the ownership of coffee plantations; it does not desire to make a heavy capital investment in any raw material — it wishes to avoid foreign entanglements.

The other activities, such as candy making and packing of olives, pickles, and condiments were centralized in Cincinnati. Kroger found that there was considerable profit in packing sundry items; large quantities of olives, pickles, and condiments were purchased and packed or packaged. Wherever the company found savings in operations of this kind it was willing to undertake them; where mechanical operations were involved there was less interest in assuming the manufacturing responsibility.

Control of Manufacturing

To date, budgetary control has not been extended to manufacturing; lack of perfected cost accounting in this division is the primary reason. Each manufacturing division was operated as a separate factory and was accountable for its profits and losses. The home office received weekly production reports and the periodic operating and financial statements. Samples of all the products, of course, were received by the Food Foundation for testing. Likewise raw materials used in manufacturing were similarly tested. Whenever there was any discrepancy in costs between plants or the quality of their products, the home office immediately began an investigation.

A close relation of the home office with the manufacturing plants, and these with the retail divisions was maintained by the company. Men from both divisions attended meetings which were held to discuss the policies and progress of the company. In addition, there were men who made regular contacts between the home office, the manufacturing plants, and the warehouse branches. The branch manager has always had some control over manufacturing because he received most of the products manufactured. Gradually, however, this was being changed: manufacturing, so far as management and control were concerned, was becoming entirely independent.

The manufacturing divisions employed from 20 to 50 people each. Many of the employees were paid a straight salary; but the

company was extending the task and bonus wage system with a view to reducing costs.

In order to foster better control an operating board was recently appointed. This was composed of representatives from each of the departments; its primary purpose was to determine policy — subject to the officers of the company. The members composing the board represented the operating, merchandising, manufacturing, real estate, personnel, finance and accounts, and engineering departments.

New Departments

The company inaugurated several new departments to expedite its operations; among them were the following:

> Property Department — to make a study and appraisal of all property and equipment;
>
> Auditing Department — to give more prompt and improved auditing service to branches and other departments and also to effect savings in costs of Certified Public Accountants;
>
> Department of Statistics — to improve and simplify methods, forms, and procedures and to furnish sales trends, comparisons, etc., to officers and executives;
>
> Display Department — to control display expenses, and to evolve new and up-to-date standards and methods adjusted to the needs of each branch and type of stores; and
>
> Department of Public Relations — "to promote a better understanding between the company and the communities it serves. . . . The department has worked out a system of contributions to local civic affairs based on the proportion of the company's business done in a community, and the contribution made by local industries of similar size."[1]

VIII

Disturbing External Factors

Competition and the attitude of the public and the government toward the chain grocery industry were two external factors of grave concern to the grocery chain store operator. The intensity of competition has increased because of at least three factors:

1. Increased competition between chain systems.
2. Rejuvenation of the unit store.
3. Growth of the voluntary chain.

On a unit basis, the independent grocer still stands as the largest competitor of any chain system. The growth of the voluntary chain movement has been a striking feature in the field of distribution in the past few years. The extent of this coöperative movement is indicated by the fact that on May 1, 1930, there were in existence 551 of these chains with a membership of 56,640 stores, which was

[1] Annual report, 1931.

considerably in excess of the aggregate total of chain store outlets. These organizations seem to have successfully followed methods of chain systems with respect to buying, advertising, and control of store operations.

Competition

The Great Atlantic and Pacific Tea Company and the National Tea Company, the most important chain rivals of the Kroger Grocery and Baking Company, have probably been the source of its greatest competition. The Great Atlantic and Pacific Tea Company has been rapidly expanding in the territory served by the Kroger stores, and to meet this competition, the Kroger Grocery and Baking Company has in many cases resorted to price cutting with consequent narrowing of profit margins. This competitor has expanded almost entirely by opening its own outlets following the leasing of sites. The National Tea Company controls about 1,600 grocery units in the Kroger territory. In 1931, however, the Kroger Grocery and Baking Company handled approximately 36½% of the total grocery business in its territory and successfully weathered all price cutting competition.

Anti-chain Legislation

In recent years, a considerable amount of anti-chain store legislation has developed in various parts of the country. Such legislation, often generated by jealousy of local interests, has endeavored to restrict the expansion of chain systems — usually through adverse taxation. The chain operators have been reasonably successful in defeating these measures; in 1929, out of 62 bills seeking to restrict the chain systems introduced throughout the country, only 3 were actually passed. The Supreme Court had, until May of 1931, upheld the position of the chain systems on the basis of discriminatory legislation, and bills which were passed in Indiana and North Carolina, which is Kroger territory, have been declared unconstitutional. But the law passed in the former state, placing a flat $50 annual tax on all grocery stores was, in May, 1931, upheld by the Supreme Court of the United States. This statute provided, in addition to the basic $50 tax, a tax graduated according to the number of stores as shown in the following schedule:

Tax on Chain Stores

Number of Stores		*Dollars Tax Each Store*
1	License fee	$3
2–5		10
6–10		15
11–20		20 each additional store over 10
20+		25 each additional store over 20

Source: *Wall Street Journal*, May 19, 1931.

Appendix A

Territorial Distribution of Stores, Warehouses, and Manufacturing and Packing Facilities

No. of Stores	*State*	*City*	*Ware-house*	*Bakery*	*Packing Plant*	*Factory*	*Dairy*
90	Arkansas	Little Rock	*				
614	Illinois	Chicago	*	*			
	Illinois	Peoria	*				
	Illinois	Carbondale	*				
389	Indiana	Fort Wayne	*	*			
	Indiana	Indianapolis	*	*			*
46	Kansas						
254	Kentucky	Louisville	*	*			
988	Michigan	Detroit	*	*			
	Michigan	Grand Rapids	*	*			*
1	Minnesota						
560	Missouri	Kansas City	*				
	Missouri	St. Louis	*	*			
30	Mississippi						
5	North Carolina						
1,287	Ohio	Cincinnati	*	*	*	*	*
	Ohio	Cleveland	*	*			
	Ohio	Columbus	*	*	*		
	Ohio	Dayton	*				*
	Ohio	Toledo	*				*
53	Oklahoma	Oklahoma City	*				
157	Pennsylvania	Pittsburgh	*				
151	Tennessee	Memphis	*	*			
63	Virginia	Roanoke	*	*			
87	West Virginia	Charleston	*				
107	Wisconsin	Madison	*	*			

Source: Annual report of company for year ending January 2, 1932.

Appendix B

PIGGLY WIGGLY CORPORATION

Price Range — Common Stock

1928 For Week Beginning	*High*	*Low*	*1928 For Week Beginning*	*High*	*Low*
June 2	$29\frac{5}{8}$	27	Sept. 1	$41\frac{3}{8}$	$35\frac{7}{8}$
June 9	27	$24\frac{7}{8}$	Sept. 8	$40\frac{3}{8}$	$35\frac{1}{4}$
June 16	$27\frac{3}{8}$	$25\frac{1}{8}$	Sept. 15	$41\frac{1}{2}$	$38\frac{1}{8}$
June 23	27	$25\frac{3}{4}$	Sept. 22	$40\frac{7}{8}$	$35\frac{1}{2}$
June 30	27	$25\frac{3}{4}$	Sept. 29	$48\frac{1}{2}$	40
July 7	$27\frac{3}{8}$	$26\frac{1}{8}$	Oct. 6	$47\frac{3}{4}$	$45\frac{3}{8}$
July 14	$26\frac{7}{8}$	$26\frac{1}{8}$	Oct. 13	$47\frac{3}{4}$	$46\frac{3}{8}$
July 21	$26\frac{7}{8}$	$25\frac{3}{4}$	Oct. 20	$49\frac{3}{8}$	47
July 28	$26\frac{1}{8}$	$26\frac{1}{4}$	Oct. 27	$49\frac{1}{2}$	$48\frac{1}{2}$
Aug. 4	31	26	Nov. 3	$49\frac{7}{8}$	$49\frac{1}{8}$
Aug. 11	$30\frac{5}{8}$	28	Nov. 10	$49\frac{7}{8}$	$49\frac{1}{8}$
Aug. 18	$33\frac{1}{2}$	30	Nov. 17	$49\frac{1}{2}$	$49\frac{1}{2}$
Aug. 25	$35\frac{3}{4}$	$33\frac{1}{4}$	Nov. 24	50	$49\frac{1}{2}$
			Dec. 1	$50\frac{1}{2}$	$49\frac{1}{2}$

Source: *Commercial and Financial Chronicle*, 1928.

Appendix C

Piggly Wiggly Corporation

Comparative Statement of Income and Expense

	1927	To Sept. 30, 1928
Income:		
License fees, general	$812,543.93	$660,350.34
Net profit, Jackson factory	177,798.52	54,120.53
Initial payments, A territory	2,800.00	3,800.00
Initial payments, B territory	2,662.50	....
Contract transfer fees	165.00	15.00
Interest earned	104,813.04	29,232.61
Special manufacturing profits	....	810.54
Special manufacturing profit — Fixtures	913.69	....
Dividend received	....	98.00
Collection — Stock subscription notes	....	25.00
Collection — Old accounts	....	85.38
Purchase discounts	....	645.25
Total Income	$1,101,696.68	$749,182.65
Expenses:		
Advertising	$40,784.95	$88,194.70
Auditing	700.00	....
Depreciation — Furniture and fixtures	432.00	564.60
Directors and executive meetings	2,094.60	....
Donations and exchange	2,582.00	....
Interest paid	93,343.57	1,009.81
Legal and patent expense	19,016.48	22,601.70
Rent	5,208.00	6,156.00
Stationery, printing and office supplies	2,107.48	2,480.39
Salaries	42,200.43	36,943.48
Stock transfer expense	5,691.18	8,520.51
Taxes	4,283.63	3,016.78
Telephone, telegraph and postage	4,733.19	4,507.19
Traveling expenses	5,389.69	3,325.04
Turnstile	1,483.32	1,979.74
General and miscellaneous	3,178.25	11,162.78
Service to operators	5,836.70	38,939.76
Total Expenses	$239,065.47	$229,402.48
Extraordinary Expense:		
Depreciation — Doubtful stock notes	$5,096.20	$........
Depreciation — Manhattan territory	28,947.96	....
Expense — Lawsuit	83,403.71	....
Reorganization expense	2,909.31	....
Underwriting expense	3,281.25	....
Bad debts charged off	274.70	....
Total Extraordinary Expense	$123,913.13	$........
Total All Expenses	$362,978.60	$229,402.48
Net Income for Year	$738,718.08	$519,780.17

Source: New York Stock Exchange listing applications.

APPENDIX C (*Continued*)

PIGGLY WIGGLY CORPORATION

Comparative Balance Sheet

Assets	*Dec. 31, 1927*	*Sept. 30, 1928*
Current Assets:		
Cash on Hand and in Banks	$111,439.50	$94,057.66
Loaned on Call	....	25,000.00
Notes Receivable: Trade	50,015.95	53,165.80
Subsidiary Companies	550,000.00	300,800.68
Accounts Receivable	33,541.73	135,223.63
License Fees Receivable (estimated)	70,000.00	72,500.00
Interest Receivable	20,783.38	14,822.44
Commissions and Allowances Receivable	526.54	2,530.07
Factory Inventory	77,192.83	93,176.87
United States Treasury Certificates 4½%, due June 15, 1929	....	600,000.00
Total Current Assets	$913,499.93	$1,391,277.15
Investments:		
Piggly Wiggly Stores, Inc., Class "A" Stock	$2,528,066.85	$2,563,254.09
Piggly Wiggly Stores, Inc., Class "B" Stock	5,000.00	5,000.00
The Southern N. E. Distributing Company, Preferred	113,700.00	113,900.00
The Southern N. E. Distributing Company, Common	29,800.00	29,800.00
Piggly Wiggly Northwest, Inc., Preferred	....	2,800.00
Arkansas Farm Credit Company	125.00	125.00
Piggly Wiggly Georgia Company and Subsidiaries	....	1.00
Total Investments	$2,676,691.85	$2,714,880.09
Fixed Assets:		
Land, Factory Site	$18,381.43	$18,381.43
Buildings, Machinery and Equipment, less Depreciation	137,158.95	127,984.17
Furniture and Fixtures, less Depreciation	5,691.79	15,455.95
License Contracts, Patents, Copyrights and Trade-marks	4,000,000.00	4,000,000.00
Total Fixed Assets	$4,161,232.17	$4,161,821.55
Deferred Assets:		
Prepaid National Advertising	$25,000.00	$30,048.96
Other Prepaid Items	12,152.53	10,211.74
Total Deferred Assets	$37,152.53	$40,260.70
Total Assets	$7,788,576.48	$8,308,239.49

APPENDIX C (*Continued*)

PIGGLY WIGGLY CORPORATION

Comparative Balance Sheet

Liabilities	*Dec. 31, 1927*	*Sept. 30, 1928*
Current Liabilities:		
Accounts Payable	$25,298.86	$47,331.64
Notes Payable	220,740.36	....
Accrued Interest	462.74	....
Accrued Salaries and Wages	1,911.11	2,241.24
Preferred Dividends	25,556.00	25,556.00
Due Piggly Wiggly Stores, Inc.	....	240,884.97
Total Current Liabilities	$273,969.07	$316,013.85
Reserves	$4,387.08	$3,705.90
Net Worth: Preferred Stock Outstanding	$1,277,800.00	$1,277,800.00
Common Stock	4,571,145.80	4,606,333.04
Surplus	1,661,274.53	2,104,386.70
	$7,510,220.33	$7,988,519.74
Total Liabilities	$7,788,576.48	$8,308,239.49

Source: New York Stock Exchange listing applications.

Appendix D

Chains Acquired by Kroger Grocery and Baking Company from January 31, 1928, to October, 1929

Name	*Location*	*No. of Units*
Foltz Grocery and Baking Company	Cincinnati and Hamilton, Ohio, and Louisville, Kentucky	193
Hoosier Stores Corporation	Fort Wayne, Ind., and vicinity	73
Eagle Grocery Company	Pittsburgh, Pennsylvania	115
Thomas (C.) Stores, Inc.	Grand Rapids and Western Michigan	166
Universal Grocery Company	Madison, Wis., and vicinity	75
Piggly Wiggly Valley Company	Kentucky, Ohio, and Indiana	76
Middle States Stores Company	Cincinnati and Dayton, Ohio	30
Columbus Piggly Wiggly Co.	Columbus, Ohio	31
Missouri-Illinois Store Company	Jefferson, St. Charles, and St. Louis Counties, Mo.; Madison and St. Clair Counties, Ill.; and Terre Haute, Ind.	150
Heilman Baking Company	Madison, Wisconsin	...
Fly & Hobson Company	Memphis, Tennessee	150
Cox Stores, Inc.	Throughout Arkansas	81
Sipes Self-Serving Stores	Oklahoma City, Oklahoma	9
Cleppe & Bartosch Company	Muskogee, Oklahoma	5
Consumers' Sanitary Coffee and Butter Stores	Chicago, Ill., and vicinity	303
Three Rivers Grocery Company	Fort Wayne, Indiana	...
R. W. Keyes & Company	Oshkosh, Wisconsin	10
Piggly Wiggly Cleveland Company	Cleveland, Ohio	19
Memphis Piggly Wiggly Company	Memphis, Tennessee	60
Piggly Wiggly Johnson Company	Grand Rapids, Michigan	26
Piggly Wiggly Ellis Company	Indianapolis, Indiana	10
Thrift Stores	Herrin, Ill., and vicinity	44
Piggly Wiggly Lewis Company	Oklahoma City, Oklahoma	17
Franklin Piggly Wiggly Company	Tulsa, Oklahoma	18
Milgram Chain	Kansas City, Missouri	34
Piggly Wiggly Erwin Company	Memphis, Tennessee	12
Jamison Company	Roanoke, Virginia	91
Patterson Company	Harrisburgh, Illinois	14
Piggly Wiggly Roanoke Company	Roanoke, Virginia	13
Total Number of Stores		1,825

Appendix E

Kroger Grocery and Baking Company

Consolidated Balance Sheets

For Years Ended
(000 omitted)

Assets	*Dec. 31, 1921*	*Dec. 31, 1922*	*Dec. 31, 1923*	*Dec. 31, 1924*	*Dec. 31, 1925*	*Dec. 31, 1926*	*Dec. 31, 1927*	*Dec. 31, 1928*	*Dec. 31, 1929*	*Jan. 3, 1931*	*Jan. 2 1932*
Cash on Hand and in Banks	$1,794	$700	$534	$889	$524	$1,410	$1,903	$7,242	$7,516	$6,588	$5,525
Marketable Securities	....	....	....	....	....	....	....	1,122	....	....	....
U. S. Government Securities	....	....	....	....	....	....	....	....	....	....	2,360
Accounts and Notes Receivable	256	55	70	62	95	113	409	865	1,325	1,213	1,144
Inventories	4,267	6,350	7,826	9,446	10,852	11,723	12,244	21,784	22,081	19,938	16,443
Cash Surrender Value of Life Insurance	....	....	....	....	....	....	....	....	20	23	26
Prepaid Ins., Rent, Taxes, etc.	....	....	....	....	....	....	188	....	761	755	712
Deferred Instalment Notes	....	....	....	....	....	....	288	261	....	....	....
Deferred Charges	....	118	185	138	197	246	....	466	135	502	487
Deferred Claims Receivable	....	....	....	....	....	....	....	....	....	....	123
Accrued Accounts Receivable, not due	....	....	....	....	....	....	....	....	....	245	264
Investments and Advances	....	....	....	....	....	....	44	6,281	7,411	7,952	7,994
Other Investments	....	15	22	22	56	62	....	....	....	....	....
Land, Buildings, Equipment, less Depreciation	2,010	3,259	4,025	4,607	6,427	8,062	9,416	18,845	24,151	23,313	22,915
Employees' Stock	673	550	482	375	117	....	....	248	265	252	267
Goodwill	930	930	930	930	930	....*	....*	....*	....*	....	....
Treasury Stock	52	22	....	27	....	3	....	....	....	....	....
	$9,982	$11,999	$14,074	$16,496	$19,198	$21,619	$24,492	$57,114	$63,665	$60,781	$58,260

APPENDIX E (*Continued*)

KROGER GROCERY AND BAKING COMPANY

Consolidated Balance Sheets

For Years Ended
(000 omitted)

Liabilities	*Dec. 31, 1921*	*Dec. 31, 1922*	*Dec. 31, 1923*	*Dec. 31, 1924*	*Dec. 31, 1925*	*Dec. 31, 1926*	*Dec. 31, 1927*	*Dec. 31, 1928*	*Dec. 31, 1929*	*Jan. 3, 1931*	*Jan. 2, 1932*
Notes Payable	$1,305	$1,917	$2,407	$2,860	$3,227	$4,029	$4,043	$8,086	$7,581	$6,260	$4,745
Accounts Payable	....	....	....	....	....	....	....	562	....	937	....
Accrued Expenses	....	....	....	....	....	....	....	353	1,514	1,017	1,103
Reserve for Federal Taxes	....	300	314	492	518	654	691	826	....	242	328
Reserves for Insurance, etc.	58	123	185	272	261	298	354	447	399	634	838
Dividends Payable	....	....	....	....	....	....	....	2	2	2	1
Employees Stock Subscriptions	....	....	....	....	....	359	943	1,420	1,713	720	19
Mortgage Bonds	....	....	....	....	....	....	....	128	....	....	....
Mortgage Payable	60	....	....	....	....	....	....	48	733	679	543
Preferred Stock of Subsidiary Company	....	....	....	....	....	....	....	729	1,174	1,002	928
First Preferred Stock	....	....	....	....	....	....	81	81	81	81	81
Second Preferred Stock	....	....	....	....	....	....	65	65	63	62	62
Preferred Stock	....	....	....	....	2,112	1,112	....	....	....	....	....
Common Stock	5,254†	7,546†	7,457†	6,965†	4,764	5,002	5,252	27,366	31,358	32,963	32,963
Paid-in Surplus	....	....	....	....	....	....	382	382	1,380	1,095	1,095
Earned Surplus	3,305‡	2,113‡	3,711‡	5,907‡	8,316‡	10,165‡	12,681	16,619	17,667	15,087	15,554
	$9,982	$11,999	$14,074	$16,496	$19,198	$21,619	$24,492	$57,114	$63,665	$60,781	$58,260

* Goodwill written down to $1.00.
†Capital stock, both preferred and common.
‡Surplus at end of year.
Source: *Poor's Industrials*, 1927, for years 1921–1924; annual reports of company for years 1925–Jan. 2, 1932.

Appendix E (*Continued*)

Kroger Grocery and Baking Company

Consolidated Income Accounts

For Years Ended
(000 omitted)

	Dec. 31, 1921	*Dec. 31, 1922*	*Dec. 31, 1923*	*Dec. 31, 1924*	*Dec. 31, 1925*	*Dec. 31, 1926*	*Dec. 31, 1927*	*Dec. 31, 1928*	*Dec. 31, 1929*	*Jan. 3, 1931*	*Jan. 2, 1932*
Sales	$44,851	$53,754	$74,339	$90,125	$116,233	$146,009	$161,261	$207,372	$286,611	$267,094	$244,371
Cost of Sales	....	....	....	72,585	....	....	133,152	173,738	241,731	208,199	187,021
Gross Profit	....	....	....	$17,540	....	....	$28,109	$33,634	$44,880	$58,895	$57,350
Other Income	....	....	....	684	....	....	922	1,296	2,549	663	627
Gross Income	$8,503	$11,186	$14,959	$18,224	$4,888	$5,783	$29,031	$34,930	$47,429	$59,558	$57,977
Less: Store Exp.	7,120	8,825	12,396	13,213	....	....	22,033	26,234	37,641	52,306	49,738
Depreciation	....	....	....	720	867	1,568*	1,054	1,273	1,860	3,193	3,148
Administration Exp	....	....	....	600	....	....	852	1,152	1,313	1,605	2,064
Total Deductions	$7,120	$8,825	$12,396	$14,533	$867	$1,568	$23,939	$28,659	$40,814	$57,104	$54,950
Net Profit	$1,383	$2,361	$2,563	$3,691	$4,021	$4,215	$5,092	$6,271	$6,615	$2,454	$3,027
Less: Interest	....	....	....	29	....	....	24	219	58	60	....
Federal Taxes	332	300	320	476	503	....	691	729	638	226	296
Net Income	$1,051	$2,061	$2,243	$3,186	$3,518	$4,215	$4,377	$5,323	$5,919	$2,168	$2,731
Dividends Paid:											
Common — Cash	$393†	$2,884†‡	$644†	$714	$952	$976	$1,025	$1,128	$1,693	$1,882†	$1,891†
Common — Stock	....	....	....	....	....	238	250	262	405	....	....
7% Cum. Preferred	....	....	....	....	....	....	36	....	....	....	....
1st and 2d Preferred	....	....	....	180	150	122	12	10	92	....	....
Total Dividends	$393	$2,884	$644	$894	$1,102	$1,336	$1,323	$1,400	$2,190	$1,882	$1,891

APPENDIX E (*Continued*)

KROGER GROCERY AND BAKING COMPANY

Consolidated Income Accounts

For Years Ended
(000 omitted)

	Dec. 31, 1925	*Dec. 31, 1926*	*Dec. 31, 1927*	*Dec. 31, 1928*	*Dec. 31, 1929*	*Jan. 3, 1931*	*Jan. 2, 1932*
Deduct:							
Allowance for Probable Decline in Value of Investments of Subsidiary Companies	....	....	....	....	....	....	300
Disbursements of Cash to Stockholders in lieu of Certificates, and other Sundry Charges	....	....	....	....	....	98	....
Reserve for Rent Losses	....	....	....	....	....	200	....
Adjustment of Stock of Piggly Wiggly Corporation	....	....	....	....	971	....	....
Write-off Cost of Goodwill of Subsidiary Companies	....	....	....	....	787	....	....
Sundry Adjustments	....	....	....	....	163	....	....
Premium on Preferred Stock Retired	7	100	96	....	....	....	....
Goodwill Reduced to $1.00	....	930	....	....	....	....	....
Total Deductions	$7	$1,030	$96	....	$1,921	$298	$300
Add: Profits from Sale of Property	....	....	194	....	....	....	....
Other Credit Adjustments	....	....	35	15	....	....	....
	$2,409	$1,849	$3,187	$3,938	$1,808	$12§	$540
Surplus at Beginning of Year	5,907	8,316	9,876¶	13,063	15,859¶	15,098¶	15,014¶
Surplus for Year	$8,316	$10,165	$13,063	$17,001	$17,667	$15,086	$15,554

* Includes Federal Taxes.
† Common and preferred.
‡ Includes 100% stock dividend.
¶Surplus adjusted — see annual report. §Deficit.
Source: *Poor's Industrials*, 1927, for years 1921–1924; annual reports of company, for years 1925–Jan. 2, 1932.

APPENDIX F

Budget Mailing Schedule

Form Letters	*Budget*	*Mailing Date*
BS	Sales	Second Monday after closing
BC	Cost of Sales	
BG	Gross Profits	
BI	Inventories	Second Thursday after closing
BE	Expenses — Grocery and Meat made separately	
BF	Profit and Loss — Grocery and Meat made separately	
BP	Purchases	Second Saturday
BM	Manufacturing — for each Manufacturing Department	
BK	Packing House	
BR	Cash Receipts	
BD	Cash Disbursements	
BX	Reconciliation	
BL	Salaries	
BT	New Construction and Equipment	
BB	Balance Sheets	
BH	Purchasing Details	

Cumulation of Budget and Actual Schedule

End of	*Report Required*
Period 1	Report of Actual and Budget
Period 2	Report of Actual and Budget
Period 3	Report of Actual and Budget
	Cumulative Report of Actual and Budget for Periods 1, 2, and 3
Period 4	Report of Actual and Budget
Period 5	Report of Actual and Budget
Period 6	Report of Actual and Budget
	Cumulative Report for Periods 4, 5, and 6
Period 7	Report of Actual and Budget
Period 8	Report of Actual and Budget
Period 9	Report of Actual and Budget
Period 10	Report of Actual and Budget
	Cumulative Report for Periods 7, 8, 9, and 10
Period 11	Report of Actual and Budget
Period 12	Report of Actual and Budget
Period 13	Report of Actual and Budget
	Cumulative Report for Periods 11, 12, and 13
	Cumulative Report for the 13 Periods

Appendix G

Letters Mailed to Branches Regarding Budget

Dear Sir:

There was a vast improvement in the receipt of budget statements for the fifth period. This was a great help in preparing the information for the divisional meetings which were called last week by Mr. Morrill.

So many of the branches had a perfect record that we are listing only those who did not comply with the schedule perfectly. The fact that a branch may have bettered the schedule has not been used to place that branch ahead of another which met the schedule perfectly, so unless the name of your branch is listed below you may consider your record perfect for the fifth period.

The five branches which failed to meet the schedule perfectly are, in proper order, as follows:

1. ....
2. ....
3. ....
4. ....
5. ....

We assure you that your effort in mailing these statements promptly is greatly appreciated.

Dear Sir:

About three months ago there was instituted a plan for placing each store manager in your branch on a quota. You will recall our letter T-231 dated Feb. 25th which outlined a suggested plan.

By this time you should have worked out a satisfactory procedure with your supervisors and store managers. You should also have accumulated considerable experience as to how this is helping store managers, the beneficial results secured, etc.

We know of some branches where the policy of having store managers set quotas, and strive for their accomplishment, has produced excellent results. We believe that the exchange of this type of information between branches is very helpful; therefore, we shall appreciate a letter from you telling how it was received and the results which have been obtained to date. Give a number of significant illustrations.

You may want to check back again with your supervisors on this subject, after which kindly let us have the requested information.

In July the department called attention to poor performance and suggested methods of correcting the trouble as follows:

Dear Sir:

The performance against the budget for the sixth period was not as good as it has been for the past several periods.

. . . .

Appendix G (*Continued*)

We suggest that you give particular attention to items where you show poorer accomplishment than the company average. Where such a condition exists, it of course serves to notify you that your result has reduced the company average. On the other hand do not overlook those features where your excellent results have contributed to a good accomplishment for the company as a whole.

As a whole, sales budgets may have been set a bit too high, and consequently difficult to attain, but since these budgets reflect your planned operations for this sixth period, any failure to accomplish your budget was a failure to carry out your plans. Likewise any over-accomplishment of your budget reflects better operations than you had planned.

If your branch happens to be one with very poor accomplishment, this should not be a source of discouragement, but rather an incentive for renewed efforts in order that we may equal or better our budgets for future periods.

Appendix H

Summarization of Budget and Actual

A. By Commodity Group

1. Budget only (each budget period)
    a. Sales amounts and sales per store for each branch and district total — 4 statements
    b. Sales amounts and sales per store for each district and company total — 1 statement
2. Budget and actual (each accounting period)
    a. Sales amounts for each branch and district total — 4 statements
    b. Sales amounts for each district and company total — 1 statement
3. Budget and actual (each accounting period)
    a. Sales per store for each branch and district total — 4 statements
    b. Sales per store for each district and company total — 1 statement
4. Budget and actual (each accounting period)
    a. Gross profit percentages for each branch and district totals — 4 statements
    b. Gross profit percentages for each district and company total — 1 statement
5. Budget only (each budget period)
    a. Gross profit percentages for each branch and district total — 4 statements
    b. Gross profit percentages for each district and company total — 1 statement

Appendix H (*Continued*)

6. Budget and actual (for each accounting period)
   a. Inventory amounts for each branch and district total —4 statements
   b. Inventory amounts for each district and company total — 1 statement

7. Budget only (for each budget period)
   a. Inventory amounts and turnover for each branch and district total — 4 statements
   b. Inventory amounts and turnover for each district and company total — 1 statement

8. Budget and actual (for each accounting period)
   a. Inventory turnover for each branch and district total — 4 statements
   b. Inventory turnover for each district and company total — 1 statement

B. By Expense (See Form 1)

1. Budget only (for each budget period)
   a. Amount and per cent to sales for each branch and district total — 4 statements
   b. Amount and per cent to sales for each district and company total — 1 statement

2. Budget and actual (for each accounting period)
   a. Amounts and per cent to sales for each branch and district total — 8 statements
   b. Amounts and per cent to sales for each district and company total — 2 statements

C. Profit and Loss (See Form 2)

1. Budget only (for each budget period)
   a. Per cent to sales for each branch and district total — 4 statements
   b. Per cent to sales for each district and company total — 1 statement

2. Budget and actual (for each accounting period)
   a. Per cent to sales for each branch and district total — 4 statements
   b. Per cent to sales for each district and company total — 1 statement

APPENDIX H (*Continued*)

Form 1

STORE EXPENSE	
Wages and Commissions	
Supv. Salaries and Expense	
Bags, Paper and Twine	
Ice and Water	
Cash — Over and Short	
Store Repairs	
Rent	
Heat, Light and Power	
Auto Allowance (Supv.)	
Misc. Store Expense	
Mdse. Decay and Spoilage	
Total Store Expense	
TRANSPORTATION	
Salaries and Wages	
Gas, Oil and Grease	
Repairs and Maintenance	
Hired Hauling	
Sundry	
Total Transp. Expense	
WAREHOUSING	
Salaries and Wages	
Taxes and Insurance	
Sundry	
Total Warehousing Exp.	
PURCHASING EXPENSE	
SALES PROMOTION & ADV.	
Salaries and Wages	
Newspaper	
Displays, Posters, Handbills	
Kroger Foundation	
Sundry	
Total Sales Prom. & Adv.	
ADMINISTRATION	
Salaries and Wages	
Stationery, Supplies & Post.	
Rent and House Service	
Taxes and Insurance	
Legal, Audit., Spec. Counsel	
Telephone and Telegraph	
Arm'd Car Serv. & Eq. Rent	
Sundry	
Total Adm. Expense	
Depreciation and Amortization	
GRAND TOTAL EXPENSE	

Appendix H (*Continued*)

Form 2

Grocery	
Sales	
Less Sales at Cost	
Gross Profit before Shrinkage	
Total Shrinkage	
Gross Profit after Shrinkage	
Less Expense:	
Store Expense*	
Transportation	
Warehousing	
Sales Promotion and Advertising	
Purchasing	
Administration	
Total Expense	
Net Operating Profit	
Other Income and Deductions (net)	
Net Profit before Fed. Inc. Tax	
Federal Income Tax	
Net Profit	

*Excluding Merchandise Decay and Spoilage.

Meat	
Sales	
Less Sales at Cost	
Gross Profit before Shrinkage	
Total Shrinkage	
Gross Profit after Shrinkage	
Less Expense:	
Store Expense	
Transportation	
Warehousing	
Sales Promotion and Advertising	
Purchasing	
Administration	
Total Expense	
Net Operating Profit	
Other Income and Deductions (net)	
Net Profit before Fed. Inc. Tax	
Federal Income Tax	
Net Profit	

Appendix I

Details of the Budget

The Budget Department in its *General Explanation and Instructions* stated concerning the sales budget:

> The Sales Budget is the basis of all budgets, and upon its accuracy depends the accurate budgeting of all related activities such as manufacturing, purchasing, cash, inventories, and profit and loss.
>
> The sales forecast is based on deliveries at retail prices on all merchandise from the warehouse to the stores, plus all direct store deliveries from vendors at retail sales price, after giving effect to planned increases or decreases in store inventories, and after making adjustment for Spoilage and price Advances and Declines.
>
> In connection with the estimated store inventory changes, unless you are able to apply these changes to specific commodity groups they may be distributed as percentage over the entire list. For instance, if it is estimated to deliver to the stores $200 per store less than the estimated store sales because of a budgeted decrease in store inventory, you will then add this $200 per store to the deliveries to the stores, on a percentage basis, and the result will be your sales forecast. If, on the other hand, you are able to make direct application to certain commodities of the estimated decrease in store inventories, you may do so and apply the remainder to the other commodities on a percentage basis.
>
> The handling of "Advances and Declines" will be identical to that mentioned above for estimated increases and decreases in store inventories. In other words, if you have estimated the various commodities at the regular retail sales prices it will be necessary to apply the "Advances and Declines" to the various commodities in order to reconcile with the actual sales. This distribution will be made by direct application to the commodities as far as possible with the remainder distributed on a percentage basis.
>
> "Advances and Declines" should be shown as a memo on Form BS-3 as provided on the Form. Inasmuch as the amount is to be distributed under the various commodities there will be no special handling of the total shown as a memo.
>
> Branch managers should study their commodity groups very carefully and thoroughly to make sure that their budgets follow the groupings as outlined on Form BS-3.
>
> Most managers will have a good idea as to the total amount of sales of their respective groups of commodities although past records may not be available. After having given proper thought to the total amount of business handled by each Branch, the Manager should break this down into major commodity groups, either on a percentage basis or actual calculation of sales, by building up the individual items in each group for the store of his Branch. The logical manner in which to go at this budget construction is first to consider what has been done, and next, in the light of past performance and current trends and developments, with proper consideration for merchandising policies, project the results into the future, in the development of a sales budget.
>
> Most of this type of preliminary work has already been done by the Branch Manager and this is only suggested where budgets have not been properly completed for the Fourth Quarter of 1930.

APPENDIX I (*Continued*)

Each Branch Manager should have a very good idea of the total amount of sales to be expected each period. After the detailed budget has been completed and summarized, the totals by periods should be compared with the original total estimate, and if not in harmony, the details should be reviewed so that no discrepancy exists between the over-all picture and the details. This principle also applies to Gross Profits, Expense and Net Profit.

It is especially important that each Manager base his sales budget on his *best honest estimate* of the *probable* sales of each commodity for each month. This estimate should be neither unjustifiably optimistic nor pessimistic. Anything but the best honest forecast of sales to be expected will result in confusion and be the means of misleading not only the Branch Manager, but all those in his organization and the Central Office. We are, therefore, very desirous of having budgets prepared on the basis of *probable* sales. Do not set a figure that is too easy to reach, nor one that is impossible of attainment.

In order that the budget may be effectively carried out throughout the entire organization, it is suggested that the Branch Managers definitely quota the stores so that each individual store manager feels his part in carrying out the Budgetary Control program, and likewise knows his measure of accomplishment in meeting the quota set for his store.

In this way the store manager's coöperation is enlisted for better merchandising and increased profits.

The matter of "Store Losses" and "Retail Shrinkage" should be given very careful and thorough study by Branch Managers in the preparation of their budgets. Past experience may be used as a guide, although it will be necessary to take cognizance of changing conditions, new merchandising policies, etc.

In reconciling sales (Form BS-3) and purchases (Form BP) with cash receipts (Form BR) and cash disbursements (Form BD) be sure to show transfers to or from other branches as a separate item, and not as a regular purchase or sale — for budget purposes.

At the end of each accounting period your Stock Book figures, or those secured from the tabulating equipment will be used to determine the movement of each merchandise group during the period. Summarize the total period sales on each item and extend at cost and retail. Cost, of course, for each item will be that shown on the master cost card for that item at the end of each period. Consideration should be given, of course, to cost variations during the period, and where these have been very great, it will be necessary to arrive at an approximate average cost instead of using the cost as of the end of the period. Where tabulating equipment is in operation, this can be done quite accurately.

Retail figures for each item will be the current retail price at the end of the period. It will, however, be necessary to take into consideration important changes during the period in order to arrive at a fair average. The method of handling "Advances and Declines" has already been explained.

To expedite this tabulation, we suggest you mark each item in your stock book with the number of its budget merchandise group. Also before starting the tabulation, prepare a work sheet for each of

the commodity groups so that you may classify the data as you compile it, and have only the totalling to do when you have finished with the sales summarization and extension. In handling the above procedure, be sure you include only shipments to stores, omitting all shipments to bakeries or other branches.

In cases in which a certain branch is committed to supply merchandise to other branches, the manufacturing branch secured from the receiving branch the estimated requirements for the budget which will then permit the manufacturing branch to make up its planned budget on the forms provided therefor. Those branches which expect to receive merchandise from other branches should prepare an estimate of such requirements at least ten days before the regular sales budgets are due, in order to give the manufacturing, or purchasing, branch sufficient time to include this requirement and prepare their budgets.

The preparation of the Sales at Cost budget will not be a very difficult matter after the sales budget has been prepared. It will only be necessary to refer to your master cost cards for each commodity group and estimate the quantities as shown on the sales budget at the average cost during the period. Care should be taken to insure that budgeted increases and decreases in store inventories are also taken into consideration on the "Sales at Cost" budget in the same manner as on the sales budget.

The remainder of the budgets were extremely important, but they were either partially derived from the basic sales budget or were supplementary to it. For this reason, only a brief explanatory summary is presented.

Gross Profit Percentage (Form BG)

This budget was expressed in percentage for each of the individual commodity groups as shown on Form BS. Its basis was the sales budget and the cost of sales budget. Price changes, competition, and general business conditions were the most important factors influencing the final budgeted percentages. The branch managers prepared this budget by commodity group totals and by individual commodity budget summation. This latter step served two purposes: it served as a check on the final correctness of the budget as a reconciliation was usually found necessary, and it indicated specifically which individual commodities the branch manager believed were his revenue producers. The form was exactly the same as that of the sales budget form — BS, except, of course, for the title, Gross Profit Budgets.

Purchases (Form BP)

The merchandise purchase budget's importance lies in its control over merchandise shipments as between branch and branch, branch and manufacturing department, etc., and as a means of determining future cash disbursements. The sales and cost of sales budgets gave the information necessary for planned purchase and manufacture of separate commodities. The purchase budget was, therefore, not broken down into commodity groups, but as indicated in Form BP. The purchase budget tied in with the cost of sales budget in that the grand total of budgeted purchases had

Form B8

SALES BUDGET

(Dollars Only—Omit Cents)

MERCHANDISE GROUP		..........PERIOD			..........PERIOD			..........PERIOD			..........PERIOD			..........PERIOD			Same Periods Last Year	
No.	NAME	BUDGET	ACTUAL	Per Cent Accomplishment	BUDGET	ACTUAL	Per Cent Accomplishment	BUDGET	ACTUAL	Per Cent Accomplishment	BUDGET	ACTUAL	Per Cent Accomplishment	BUDGET	ACTUAL	Per Cent Accomplishment	ACTUAL	
	GROCERY DEPARTMENT																	
1	Fruits & Vegetables																	1
2	Potatoes																	2
3	Butter																	3
4	Eggs																	4
5	Oleo																	5
6	Cheese—Warehouse																	6
7	" —Outside																	7
8	Fresh Milk																	8
9	Lard & Compounds																	9
10	Bread—Kroger																	10
11	" —Outside																	11
12	Crackers & Cookies—Kroger																	12
13	" " —Outside																	13
14	Layer Cake—Kroger																	14
15	" " Outside																	15
16	Candy—Kroger																	16
17	Candy & Gum—Outside																	17
18	Coffee—Kroger																	18
19	Coffee & Sub.—Outside																	19
20	Tea—Kroger																	20
21	" —Outside																	21
22	Bottled Beverages—Kroger																	22
23	" " —Outside																	23
24	Smoked Meat—Kroger																	24
25	" " —Outside																	25
26	Catsup & Tablesauce																	26
27	Relishes																	27
28	Salad Dressing																	28
29	Bread Spreads																	29
30	Canned Milk																	30
31	Soups																	31
32	Corn Canned																	32
33	Peas "																	33
34	Tomatoes "																	34
35	Beans "																	35
36	Other Canned Vegetables																	36
37	Salmon																	37
38	Other Canned Fish																	38
39	Canned Meats																	39
40	" Peaches																	40
41	" Pineapple																	41
42	Other Canned Fruit																	42
43	Cocoa & Chocolate																	43
44	Misc. Fancy Groceries																	44
45	Syrups & Molasses																	45
46	Sugar																	46
47	Family Flour																	47
48	Other "																	48
49	Spices & Extracts																	49
50	Nuts																	50
51	Desserts																	51
52	Baking Ingredients																	52
53	Rice																	53
54	Dried Beans, Peas, Etc.																	54
55	Feeds																	55
56	Dried Fruits																	56
57	Macaroni Products																	57
58	Cereals																	58
59	Salt Fish																	59
60	Tobacco & Cigarettes																	60
61	Laundry Soap																	61
62	Toilet "																	62
63	Soap Powders & Chips																	63
64	Canning Supplies																	64
65	Laundry "																	65
66	Other Cleaning Supplies																	66
67	Household Supplies																	67
68	Mdse. Premiums																	68
	TOTAL GROCERY																	
	MEMO ADVANCE & DECLINE																	
	MEAT DEPARTMENT																	
1	Beef																	1
2	Veal																	2
3	Lamb																	3
4	Pork Loins																	4
5	Fresh Callies																	5
6	Smoked Hams																	6
7	Bacon																	7
8	Smoked Callies																	8
9	Sausage																	9
10	Poultry																	10
11	Fish																	11
12	Misc. Meats																	12
13	Lard & Compounds																	13
14	Dairy Products																	14
15	Miscellaneous																	15
	TOTAL MEAT																	

BUDGET FORM B8.

SALES BUDGET FOR ______________ PERIOD OF 1931

______________ BRANCH

to agree with the total sales at cost, after giving effect to budgeted warehouse inventory changes. The manner in which Form BP tied in with the cash budget can be observed in the illustrations of the two forms.

Inventory (Form BI)

The Budget Department stated in its outline:

> In preparing the inventory forecast, the possibilities of inventory reduction should be considered. . . .
>
> In actual practice, the ideal inventory should be determined for each commodity group before the purchase requirements, so that after taking into consideration the opening inventory, sales, and the closing inventory, the amount necessary to purchase in order to provide sales and this ideal inventory will be automatically determined, instead of the old method of laying out purchase requirements and having a balance left on hand for the closing inventory, regardless of its necessity.

The inventory budgets were made separately for each commodity group and as a total in the warehouse but only as a grocery total and a meat total in the stores. The reason for the lumping in the stores was that all merchandise loses its identity as separate commodities in the retail stores. The inventory budget form differed from the sales budget form in only one respect: it had an actual and budget column for the number of periods' supply of merchandise on hand.

Manufacturing (Form BM)

Each branch manager prepared a budget of his requirements from the manufacturing departments. The important budgeting of manufacturing expense was included in this form. The branch manager made out the complete budget, although certain expenses such as depreciation, general office salaries, etc., were determined at the home office and certain other expenses which were not the direct responsibility of the branch.

Expenses (Form BE)

All other expenses of the branch were budgeted by the branch manager, although again certain expenses were determined by the home office. Market declines were treated as an expense although they did not involve a cash outlay. A study of Form BE will indicate how it tied in with the cash budget.

Prepaid and Deferred Items (Form BX)

In order to account for prepaid and deferred items, a separate form was prepared so that the period charges could be reconciled with cash disbursements. The adjustments were made in the following groups of expenses for cash budget purposes: Expense — Groups 2, 5, and 8, Form BE; Expense — Group 7, Form BM; Expense — Groups 6, 11, and 13, Form BK; and Materials and Supplies — Group 5, Form BM.

Form BM

Budget Form BM

Use separate Form for each manufacturing operation.

MANUFACTURING BUDGET

(Dollars Only—Omit Cents)

Dept.________________ ________________Branch

________________Period, 1931

ITEM	DELIVERIES TO WAREHOUSE, STORES AND OTHER BRANCHES																				SAME PERIODS LAST YEAR	%
	PERIOD				PERIOD				PERIOD				PERIOD				PERIOD					
	BUDGET	%	ACTUAL	%	BUDGET	%	ACTUAL	%	BUDGET	%	ACTUAL	%	BUDGET	%	ACTUAL	%	BUDGET	%	ACTUAL	%		
1. Production lbs.																						
2. Production Value																						
3. Total Production Cost																						
4. NET PROFIT BEF. INC. TAX																						
5. TOTAL MATERIAL AND SUPPLIES USED																						
EXPENSES																						
EXP. PD. BY GENERAL OFFICE AND BILLED TO BRANCH																						
Rent of Co. owned Property																						
Insurance																						
Taxes																						
Management																						
General Office Payroll																						
Other (itemize)																						
6. TOTAL																						
EXPENSES PAID BY BRANCH																						
Payroll - Direct																						
Payroll - Indirect																						
Freight, Hauling and Delivery																						
Light and Power																						
Coal and Gas																						
Ice and Water																						
Building Repairs																						
Equipment Repairs																						
Rent																						
Storage Rent																						
Perishable Tools																						
Power Plant Prorated																						
Heat, Light and Power (Outside)																						
Manufacturing Supplies																						
Sundry Expense																						
7. TOTAL																						
WRITE-OFF EXPENSE																						
Depreciation																						
Amortization																						
Bottle Loss																						
8. TOTAL																						
9. GRAND TOTAL EXP.																						
10. Net Profit Before Income Tax																						
11. Income Taxes																						
12. NET PROFIT																						
MANUFACTURING INVENTORY DATA																						
CLOSING INV. VALUE																						
Finished Stock																						
Raw Material*																						
Ingredient Supplies																						
Wrapping and Packing Supplies																						
TOTAL																						

The % shown above represent the % of Production Value. Production Value represents the transfer price.

Form BE

EXPENSE BUDGET

(Dollars Only—Omit Cents)

(Use separate forms for Grocery and Meat Expenses)

ITEM	PERIOD				PERIOD				PERIOD				PERIOD				PERIOD				SAME PERIODS LAST YEAR	% to Sales
	BUDGET	% to Sales	ACTUAL	% to Sales	BUDGET	% to Sales	ACTUAL	% to Sales	BUDGET	% to Sales	ACTUAL	% to Sales	BUDGET	% to Sales	ACTUAL	% to Sales	BUDGET	% to Sales	ACTUAL	% to Sales		
STORE EXPENSE																						
1. Expenses paid by General Office and Billed to Branch—TOTAL																						
Mdse. Decay and Spoilage																						
EXPENSES PAID BY BRANCH																						
Wages and Commissions																						
Supervision Salaries and Expense																						
Bags, Paper and Twine																						
Ice and Water																						
Cash Register—Over and Short																						
Store Repairs																						
Rent																						
Heat, Light and Power																						
Auto Allowance (Supv.)																						
Misc. Store Expense																						
2. TOTAL																						
3. TOTAL STORE EXPENSE																						
TRANSPORTATION																						
EXP. PD. BY GEN'L OFFICE																						
Salaries																						
Taxes																						
Rent																						
Sundry																						
4. TOTAL																						
EXPENSES PD. BY BRANCH																						
Salaries and Wages																						
Gas, Oil and Grease																						
Repairs and Maintenance																						
Taxes and Licenses																						
Hired Hauling																						
Sundry																						
5. TOTAL																						
6. TOTAL TRANS. EXPENSE																						
WAREHOUSING																						
EXP. PD. BY GEN'L OFFICE																						
Salaries																						
Taxes																						
Insurance																						
Rent and House Service																						
Sundry																						
7. TOTAL																						
EXPENSES PD. BY BRANCH																						
Salaries and Wages																						
Repairs and Maintenance																						
Insurance																						
Taxes																						
Heat, Light and Power																						
Sundry																						
8. TOTAL																						
9. TOTAL WAREHOUS. EXP.																						
PURCHASING																						
10 Expenses Paid by General Office and Billed to Branch—TOTAL																						
11. Exp. Pd. by Branch—TOTAL																						
12. TOTAL PURCHASING EXP.																						
ADV. AND SALES PROM.																						
13 Expenses Paid by General Office and Billed to Branch—TOTAL																						
EXPENSES PAID BY BRANCH																						
Salaries and Wages																						
Traveling																						
Newspaper Advertising																						
Window Displays																						
Posters and Handbills																						
Car Cards																						
Kroger Foundation																						
Sundry																						
14. TOTAL																						
15. TOTAL ADV. & SALES PROM.																						
ADMINISTRATION																						
EXP. PD. BY GEN'L OFFICE																						
Salaries																						
Stationery and Printing																						
Rent																						
Insurance																						
Taxes																						
Legal, Auditing and Special Counsel																						
Sundry																						
16. TOTAL																						
EXPENSES PAID BY BRANCH																						
Salaries and Wages																						
Stationery, Printing and Supplies																						
Repairs and Maintenance																						
Telephone and Telegraph																						
Postage																						
Traveling																						
Employees Welfare																						
Auto Allowance (Except Supv.)																						
Armored Car Service																						
Rent and House Service																						
Insurance																						
Taxes																						
Equipment Rental																						
Heat, Light and Power (Outside)																						
Legal, Auditing and Special Counsel																						
Sundry																						
17. TOTAL																						
18. TOTAL ADMINISTRATION																						
WRITE-OFF EXPENSES																						
All Depreciation																						
All Amortization																						
19. TOTAL																						
20. GRAND TOTAL EXPENSES																						

Item 19 covers all Depreciation and Amortization applicable to the various expense groups.
Items 2, 5, 8, 11, 14 and 17 will be combined for Item 4 Cash Disbursements Form BD.

Expense Budget for the ______ Period, 193__

______ Branch.

Appendix I (*Continued*)

Form BX

____________________Branch

Reconciliation — Deferred and Prepaid Accounts

(Separate reconciliation for each item) *(Dollars Only — Omit Cents)* ____________Budget Period 1931

Item	Acct.				Acct.	
	Budget	*Actual*			*Budget*	*Actual*
(a) Opening Balance (b) Charges — from Cash Payments (c) Other Charges (d) Total (e) Credits — Charges to Expense Accts. (f) Other Credits (g) Total Credits (h) Closing Balance						
(a) Opening Balance (b) Charges — from Cash Payments (c) Other Charges (d) Total (e) Credits — Charges to Expense Accts. (f) Other Credits (g) Total Credits (h) Closing Balance						

APPENDIX I (*Continued*)

Salaries (Form BL)

This supplementary budget was made out by the branch accountant and concerned only salaries, which were of a confidential nature.

Cash Budgets

The two cash budgets were based almost entirely on the sales, purchasing, manufacturing, and expense budgets.

Cash Receipts (Form BR)

The Budget Department in its explanation of the procedure in preparing this budget stated:

> It is suggested that you give some thought to the matter of time lag between the delivery of goods from the warehouse to the stores, and the deposit of money by stores in central depositories. Most likely, it will not be necessary to make an adjustment on your "Sales" budget in preparing the Cash Receipts budget, because the overlap at the beginning and end of each period will usually offset.
>
> The other items shown on Form BR, we believe are self-explanatory. One thought to bear in mind is that the total of this budget must agree with your "Cash Receipts" as shown by your Cash Book, except, of course, where there are borrowed funds.

Cash Disbursements (Form BD)

This form was practically self-explanatory. The budgeting of discounts was an aid in planning payment agreements with vendors. The Cash Reconciliation section provided the tie-in with the cash balance on the budgeted balance sheets.

New Construction and Equipment (Form BT)

Although the Central Office regulated construction and alteration activity, the Branch Manager was asked to plan all proposed and officially sanctioned work of this nature. He estimated the amounts to be capitalized and the expense to be charged regardless of cash payment, which was taken care of in the cash budgets and in the two reconciliation budgets.

Profit and Loss (Form BF)

This budget was prepared entirely from the other budgets.

Balance Sheet (Form BB)

The reason for the budgeting of the balance sheet was that it served as a partial check on the preceding work and tied in and graphically completed the total budget procedure. The accountant at the branch made out this budget.

Each department at the home office budgeted its own expenses, which made the budgetary control complete. The various budgeted balance sheets were roughly consolidated with the home office budgeted balance sheet to give a final budgeted consolidated statement.

Form BR and BD

Budget Form BR
Budget Form BD

CASH BUDGETS

(Dollars Only—Omit Cents)

______ Branch
______ Period, 1931

	ITEM	____ PERIOD			____ PERIOD			____ PERIOD			____ PERIOD			____ PERIOD		
		BUDGET	ACTUAL	% Accomplishment	BUDGET	ACTUAL	% Accomplishment	BUDGET	ACTUAL	% Accomplishment	BUDGET	ACTUAL	% Accomplishment	BUDGET	ACTUAL	% Accomplishment
	CASH RECEIPTS—FORM BR															
1	Cash Register Sales Item 1—Form BF															
2	Reduction of Accounts Receivable															
3	Interest Received															
4	Sub-Rentals															
5	Sales of Equipment Salvage															
6	Outside Sales															
7	Confidential Allowance—Vendor															
8	Confidential Allowance—General Office															
9	Other (Itemize)															
10	TOTAL CASH RECEIPTS															
	CASH DISBURSEMENTS—FORM BD															
1	Merchandise Purchases (Items 5, 10 —Form BP) Less Discounts Net Cash															
2	Manufacturing Materials & Expenses (Items 5 and 7—Form BM excluding General Office billing) Less Discounts Net Cash															
3	Reduction of Accounts Payable															
4	Store & Branch Expenses (Items 2, 5, 8, 11, 14 and 17—Form BE)															
5	New Construction and Equipment (Form BT)															
6	Robberies and Bad Checks															
7	Other (Itemize)															
8	TOTAL CASH DISBURSEMENTS															
	CASH RECONCILIATION															
	Opening Balance															
	Total Receipts from Operations (Item 10, Form BR)															
	Receipts from General Office															
	TOTAL															
	Less- Total Disbursements for Operations (Item 8, Form BD)															
	Disbursements to General Office															
	Closing Balance															

CASH BUDGETS FOR ______ PERIOD OF 193

______ BRANCH

FORM BR, BD

APPENDIX I (*Continued*)

Form BL

SALARIES BUDGET

(Dollars Only — Omit Cents)

Confidential

________________Branch

________________Period, 1931

Five Periods ITEM	*1 Period*						*5 Period*				*Same 3 Periods Last Year*	
	Budget	%	*Actual*	%			*Budget*	%	*Actual*	%	*Actual*	%
GROCERY DEPARTMENT												
Sales Promotion and Advertising												
Grocery Purchases												
Produce Purchases												
Personnel Department												
Office and Accounting												
Administrative												
Warehousing												
Transportation												
TOTAL GROCERY												
MEAT DEPARTMENT												
Sales Promotion and Advertising												
Grocery Purchases												
Meat Purchases												
Personnel Department												
Office and Accounting												
Administrative												
TOTAL MEAT												
GRAND TOTAL SALARY												

The % shown above represent the % of sales.

SALARIES BUDGET FOR____________Period of 1931

____________Branch

Budget Form BL

Appendix I (*Continued*)

Form BT

Construction, Equipment and Alterations Budget

(Dollars Only — Omit Cents)

Description of Item	*Total Budget Cost*	*Amount to be Charged to Expense*	*Amount to be Capitalized*	*Payments Prior to Budget Period*	Distribution Capitalized Payments Only					
					———— *Period*					*Payments Subsequent to Budget Period*
					Budget	*Actual*	*Increase Decrease*			

Construction, Equipment and Alterations Budget for ———————— Period, 193——

Budget Form BT ———————— Branch

APPENDIX I (*Continued*)

Form BF

PROFIT AND LOSS BUDGET

(Dollars Only — Omit Cents)

__________Dept.

Item	______ *Period*					Same Periods Last Year	
	Budget	*% to Sales*	*Actual*	*% to Sales*		*Actual*	*% to Sales*
1. SALES							
2. SALES AT COST							
3. MARK-UP PROFIT							
4. Retail Shrinkage							
5. Spoilage and Decay							
6. TOTAL SHRINKAGE							
7. GROSS PROFIT							
Store Expenses							
Exc. Mdse. Decay & Spoil.							
Transportation							
Warehousing							
Sales Promotion & Adv.							
Purchasing							
Administration							
8. TOTAL EXPENSE							
9. NET OPER. PROFIT							
10. Salvage Recovery							
11. Other Income							
12. TOTAL PROFIT							
13. Other Deductions							
14. NET PROFIT BEFORE FEDERAL INCOME TAX							
15. Federal Income Tax							
16. NET PROFIT							

__________ PROFIT AND LOSS BUDGET FOR THE __________ Period, 193___

__________ Branch

Budget Form BF

APPENDIX I (*Continued*)

Form BB

BALANCE SHEET BUDGET ______________________ Branch

(*Dollars Only — Omit Cents*) ______________________ Budget Period 193___

Item	Period: Budget	Period: Actual	Period: Increase or Decrease		
ASSETS					
1. Cash					
2. Accounts Receivable — Outside					
3. Accounts Receivable — Affiliated and Inter-Branch					
4. Notes Receivable					
5. Merchandise Inventories					
6. Utility (Meter) Deposits					
7. Real Estate, Building and Equipment — Net					
8. Leasehold Improvements — Net					
9. Deferred Charges					
10. Prepaid Expenses					
11. Accrued Accounts Receivable — Not Due					
12. TOTAL ASSETS					
LIABILITIES					
13. Accounts Payable — Outside					
14. Accounts Payable — Affiliated and Inter-Branch					
15. Accounts Payable — Kroger General Office					
16. Mortgage and Bonds Payable					
17. Deferred Credits					
18. Accrued Liabilities					
19. Operating Reserves					
20. Capital Stock					
21. Investment Account					
22. Surplus					
23. Profit and Loss					
24. TOTAL LIABILITIES					

Budget Form BB